

**CITY OF
LYNCHBURG, VIRGINIA**

Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2007

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2007

**CITY OF LYNCHBURG,
VIRGINIA**

Prepared by:
Financial Services

CITY OF LYNCHBURG, VIRGINIA

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INTRODUCTORY SECTION



The City of Lynchburg, Virginia

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OFFICE OF THE
CITY MANAGER

November 16, 2007

The Honorable Mayor and Members of the City Council
City of Lynchburg, Virginia

The Comprehensive Annual Financial Report (CAFR) for the City of Lynchburg, Virginia, (City) for the year ended June 30, 2007, is hereby submitted in accordance with the *City Code* and state statutes. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. With reasonable assurance, based upon a comprehensive set of internal controls, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows, as applicable, of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

State law and *City Code* require that the financial statements of the City be audited by an independent certified public accountant selected by City Council. Brown, Edwards & Company, L.L.P. has performed an audit of the Comprehensive Annual Financial Report (CAFR). The independent auditor's report, including an opinion on the basic financial statements of the government-wide and fund financial statements, is contained in the Financial Section of this Report. Brown, Edwards & Company, L.L.P. also audited the component unit financial statements of the Lynchburg City Schools and the Greater Lynchburg Transit Company.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report. The information presented in the MD&A provides a narrative introduction, overview, and analysis of the basic financial statements and should be considered in conjunction with additional information provided in this Letter of Transmittal.

The financial reporting entity includes all funds of the primary government (i.e., the City of Lynchburg), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The City provides a full range of municipal services including general administration, judicial functions, police and fire protection, parks and recreation, libraries, museums, health, juvenile and social services, maintenance of streets and highways, economic

development, and community planning. The City also owns and operates water and sewer systems, a municipal landfill, and a regional airport. The City's discretely presented component units, Lynchburg City Schools (Schools), Business Development Centre, Inc., and Greater Lynchburg Transit Company (GLTC), provide public education, various small business services, and public transportation, respectively, to the citizens of the City. These component units are included in separate columns in the City's government-wide financial statements to emphasize that they are legally separate from the City and to differentiate their financial position and results of operations from that of the City. Each of these component units' governing bodies is appointed by City Council. Excluded are the financial statements of the Lynchburg Redevelopment and Housing Authority and the Industrial Development Authority of the City of Lynchburg. These organizations are associated with the City, but are legally separate entities, which operate with considerable autonomy outside the direct control of City Council and for which the City is not financially accountable. Also, excluded are the financial statements of the Blue Ridge Regional Jail Authority and the Central Virginia Community Services Board, which are jointly governed organizations. Additional information regarding the City's financial status can be found in the MD&A section of the CAFR.

The City's accounting records for governmental fund type operations are maintained on a modified accrual basis with revenues recorded when available and measurable, and expenditures recorded when services or goods are received and the liabilities incurred. Accounting records for the City's proprietary fund types are maintained on an accrual basis.

City Council approved Debt Management, Fund Balance, Budget and Investment policies to guide fiscal decision-making and to ensure continued strong financial health. These policies were reaffirmed by City Council in December 2006. Along with the reaffirmation of policies, information was presented to City Council on debt capacity and affordability. Based on debt service capacity and affordability, City Council decided to build a new juvenile and domestic relations court building and a new Sandusky Middle School instead of renovating the existing school. Financial policies for risk management and grants are being developed for future consideration by City Council.

As required by law, each year, at least 60 days prior to June 30, the City Manager submits to City Council a recommended budget for the fiscal year beginning July 1. After an extensive budget preparation and review process and a public hearing to receive citizen input, City Council adopts the annual budget. The annual budget includes all funds represented in the City's Comprehensive Annual Financial Report. The budget must be adopted on or before May 15.

The City of Lynchburg was incorporated in 1805 by the Virginia General Assembly and became an independent city in 1852. Encompassing 59 square miles, Lynchburg is located adjacent to Amherst, Bedford, Appomattox and Campbell Counties, on the eastern edge of the beautiful Blue Ridge Mountains, and is within 14 miles of the geographic center of the Commonwealth of Virginia. With a population of 68,758, Lynchburg is an important commercial center for this four-county region. The City benefits from an economy that has been relatively stable and remains diversified among the manufacturing, service, technology, and trade sectors, as well as being the home to 5 colleges and universities.

The City of Lynchburg has been organized under the Council-Manager form of government since 1920. City Council is the governing body that makes all policy decisions for the proper administration of the City. City Council is elected by the voters and is comprised of seven members, who elect a Mayor and Vice-Mayor from their members for a two-year term. Three City Council members are elected at-large and four are elected from wards. Terms are for four years so a portion of Council is elected every two years. The City Council appoints a City Manager to act as administrative head of the City. He serves at the pleasure of City Council, carries out its policies, directs operating procedures and has the power of appointment and removal of the directors of all departments and employees of the City.

Local Economic Condition and Outlook

The City of Lynchburg has an aggressive economic development program that is committed to creating jobs for its citizens and generating new sources of tax revenue by strengthening and diversifying the local economy through the attraction of new businesses and the retention and expansion of existing businesses. This commitment, the strategic location of the City, a strong workforce, a moderate climate, and desirable available real property make Lynchburg an attractive location for an ever-increasing mix of businesses.

The City continues to market for new businesses, particularly in the downtown and industrial parks, which are designated as Enterprise Zones and Technology Zones. Numerous business owners have taken advantage of the benefits of these zones. The Enterprise and Technology Zones overlap, allowing qualifying businesses the choice of which program to apply for in the City's designated development areas.

Retail businesses, stores and restaurants continue to thrive in the Route 29 (Wards Road) corridor, which remains the regional retail and restaurant hub serving Lynchburg and the four surrounding counties. The significant growth at nearby Liberty University continues to have a positive impact on retail and restaurant sales in this corridor. Retail development is now spilling over into Campbell County with the opening of Kohl's, Ross Dress for Less and Old Navy in the Wards Crossing West shopping center and a second set of stores to open fall 2007. These stores include a Famous Footwear, Rue 21 and A.C. Moore Crafts. Although the City will not receive any tax revenue from these businesses, their proximity to retailers located in the City should help the area to remain a magnet for shoppers and may recapture some of the consumer leakage to other areas. Plans are in development for a major new shopping center in the western part of the City. New shopping center development is also proposed adjacent to Liberty University in Campbell County.

In recognition of the shared commitment and belief that economic growth in any of the region's communities benefits the entire region, business, government, and community leaders of the City and surrounding jurisdictions continue to participate in regional activities. The Region 2000 Partnership is an umbrella organization that includes the Local Government Council, the Economic Development Council, the Technology Council, the Young Professionals of Central Virginia, the Center for Advanced Engineering and Research, and the Workforce Investment Board and Career Center. Supported through voluntary contributions from participating businesses, organizations, and jurisdictions that contribute on a per capita basis, the Region 2000 Partnership will continue to combine public and private sector interests to support ongoing local, state, national, and international programs in central Virginia.

The City experienced limited growth in the industrial, commercial, technology, and retail sectors during FY 2007. However, Areva NP is involved in a joint effort to design and build the first new U.S. commercial reactor in a generation. In order to hire the 130 engineers needed for this endeavor, Areva NP has joined with other local companies to implement a new "Grow Our Own" engineering program through Central Virginia Community College and the University of Virginia. If Areva is successful in receiving an order for a new nuclear reactor the growth of its workforce will be much greater than the 130 engineers mentioned above.

Also, the Lynchburg Industrial Development Authority (LIDA) sold their building at 301 5th Street to the James River Conference Center (JRCC). JRCC has been extremely successful in hosting downtown conferences and meetings. The call center operated by Civic Development Group will continue its lease of one-third of the building. The building was originally constructed by the LIDA in 1992 as part of the postal service privatization of bar coding mail.

Public infrastructure improvements were made in two private industrial parks to facilitate the opening of Ideal Storage, LynTool and Caroling North, representing a total investment of \$2 million.

Wyndhurst, a \$200 million, mixed-use, residential, institutional, retail and commercial development designed as a “traditional neighborhood development”, is finishing out its residential component and continues to see stable business activity. The success of Wyndhurst resulted in some of the same developers starting a similar, although, smaller, mixed-use development called “Cornerstone.” Construction of the Cornerstone development began in early 2007.

In the fall of 2006 City Council rezoned approximately 120 acres on the City’s west end for a major commercial retail development called “Lakeside Centre”. A second phase of 60 acres has since been rezoned. The entire project will total over 1.5 million square feet of space and will include national retailers in a town center along with a multiplex cinema, restaurants, a hotel, and associated services. Major infrastructure improvements and primarily roads are in the planning stage. Occupancy of the first phase of the project is planned for fall 2010.

While maintaining its role as an employment and commercial center for a four-county metropolitan area with a population of about 228,600, Lynchburg has dealt effectively with many of the challenges that face economies historically focused on manufacturing. In addition to a number of manufacturing and retail firms, the City also contains a major medical center and several colleges. Centra Health serves the medical needs of a broad section of Central Virginia with two hospitals, Virginia Baptist and Lynchburg General, and associated facilities. During the year construction continued on a \$69 million, five story, 108-bed tower addition to Lynchburg General. This addition is scheduled to open in fall 2007. Construction also continued on a 75,000 square foot regional outpatient cancer treatment center which, is scheduled to open in spring 2008. Liberty University continues its rapid expansion with over 10,000 students on campus and 3,000 faculty and staff. In addition, Liberty University has over 10,000 students enrolled in its Distance Learning Program. In September 2006, \$82 million of campus construction projects were completed. Half of that was spent to transform a one million square foot former Ericsson plant into a law school, student activities center, exercise facility and a larger site for the church. With Reverend Jerry L. Falwell’s passing on May 15, 2007, one of his sons, Jerry Falwell, Jr. became the Chancellor of Liberty University; and his other son, Jonathan Falwell, became pastor of Thomas Road Baptist Church. Lynchburg College and Central Virginia Community College continue their modest growth in facilities and enrollment. Three other colleges serve the region.

Major Initiatives and Accomplishments

Downtown and Riverfront Development/Redevelopment

The City continued its sixth year of implementing elements of the Downtown/Riverfront Master Plan adopted in March 2001. Sasaki & Associates and Economics Research Associates developed the twenty-year plan encompassing a sixty-block area. Implementation continues to focus on four areas: infrastructure/public space improvements, culture and entertainment, commercial development, and government projects.

The goal of the infrastructure/public space improvements is to attract more activity and private development into the downtown area. The public investment for projects completed or underway totals nearly \$7 million. Phase One of the infrastructure improvements was completed during FY 2005 and Phase Two of the Riverfront public space improvements was completed in 2007 and included construction of the Depot Plaza project at the western edge of the Riverfront Park.

Another important initiative was the update of the Downtown and Riverfront Master Plan (the “Sasaki Plan”) that was adopted in 2001. Changing circumstances since the plan’s adoption suggested that the plan be updated and project priorities for the next five years be determined. The Master Plan Update and Implementation Schedule were completed by Nelson-Byrd-Woltz Landscape Architects in August 2006 and support the original Sasaki Plan work. The Update identifies several new projects, by

priority, and includes construction cost estimates. Many of these new projects are being coordinated with private sector development adjacent to Jefferson and Commerce Streets.

Private developments include new and expanded restaurants, stores, and offices. A major new lodging, dining and meeting facility, the BluffWalk Center opened in September 2007. It includes the Craddock Terry Hotel, a boutique hotel with forty-three individually unique guestrooms and a conference center; Shoemakers, a high-end restaurant; Waterstone, a casual restaurant; and the Jefferson Street microbrewery in two renovated buildings, one previously a shoe factory and the other a tobacco warehouse.

Housing is a critical component of the Downtown Master Plan adding twenty-four hour a day/seven days a week life to the streets and increasing demand for retail and entertainment. Several new loft apartment housing projects have been built and others are in the planning stage. City Market Lofts is now leasing its sixty-seven units and has already gained new tenants for part of its 12,500 square feet of retail space. The project is located adjacent to the City's Community Market, which will further enhance the historic market and add more "critical mass" in specialized retail downtown.

Since 2000 there has been a total investment of \$129 million in downtown projects. Public sector investment of approximately \$37.4 million has encouraged significant private investment. The City's success in downtown revitalization was recognized in 2006 through receipt of a Great American Main Street Award from the National Trust for Historic Preservation.

Future downtown revitalization activities include the renovation of the City Market both inside and outside and the construction, starting in the fall of 2007, of a new Juvenile and Domestic Relations Courthouse. This building will have the first "green" roof in the City. The Lynchburg Parking Authority has engaged the firm of Carl Walker to examine both short and long-term parking needs downtown and to make recommendations, including the need for new structured parking. The parking study results are expected in early fall 2007.

Midtown and Fifth Street Corridor

On October 11, 2005, City Council approved an amendment to the City's Comprehensive Plan to incorporate the Midtown Area Plan. As part of the Midtown Area Plan, the Fifth Street Corridor Plan's purpose is to provide a vision and a blueprint for the revitalization of the Fifth Street Corridor between Main Street and the Martin Luther King, Jr. Memorial Bridge. The primary focus is the area encompassing two blocks on either side of Fifth Street although there is recognition that the surrounding neighborhoods of College Hill, Garland Hill, and Tinbridge Hill are very important to the corridor's revitalization. Fifth Street provides an important link between the Downtown/Riverfront and Midtown areas of the City. In order for the corridor to succeed, it must serve the needs of the residents and be an attractive gateway to both Downtown and Midtown. The major efforts proposed to revitalize the corridor will be in the form of streetscape improvements that create a pedestrian friendly environment and encourage business development. The streetscape improvements include wider sidewalks, the addition of street trees, the addition of on-street parking, and a modern roundabout at the intersection of Fifth and Federal Streets. The Fifth Street Corridor Plan was approved in April 2006 by the Planning Commission and in May 2006 by City Council. Funding is provided in the FY 2007 Adopted Capital Improvement Plan for the design and construction of the roundabout. There has been significant private interest with several recent land sales and the opening of two new restaurants on Fifth Street.

Combined Sewer Overflow (CSO)

In August 1994 the Virginia Department of Environmental Quality (DEQ) issued the City a discharge permit and a special consent order which established a compliance schedule and project

priorities for implementation of a Combined Sewer Overflow (CSO) Control Plan. The compliance schedule does not contain fixed dates for implementing the CSO Control Plan, but rather provides for implementation that reflects the City's financial capability. Starting July 1, 1993 through June 30, 2007, the City has appropriated approximately \$131 million for CSO control and abatement projects. This funding has resulted in the closing of 100 of the 132 CSO outfalls with more than a 77% reduction in CSO volume. For FY 2007, capital expenditures for the CSO Program were approximately \$8.4 million.

The CSO Control Plan was updated in 2000 and sewer separation continues to be the long-term approach to the City's CSO concerns. The total estimated cost of the CSO Control Plan in 2007 dollars is \$428.5 million with \$232 million in direct CSO abatement costs remaining. In conjunction with the CSO abatement program, optional projects included in this cost are replacement of water system infrastructure at an estimated remaining cost of \$26 million and street and road improvements in those areas where CSO projects are being undertaken at a cost of \$54 million. The City faces continued challenges in its sewer operations. Regulatory mandates for nutrient removal at the wastewater treatment plant and major interceptor sewer replacements could impact future sewer rates to fund debt. The City's sewer infrastructure continues to age, further burdening the fund's future. The City received a state grant of \$650,000 in FY 2007.

Education

In August 2006, Lynchburg City Schools were notified that they made Adequate Yearly Progress as a school division for the second year in a row. Lynchburg City Schools has worked diligently to meet the requirements of No Child Left Behind. Even with the increased requirements and new reading and math tests in grades 4, 6, and 7, fourteen of sixteen City schools met or exceeded 100% of the No Child Left Behind Act objectives during the FY 2007 school year. Other educational achievements include State of Virginia Department of Education notification to the Lynchburg City Schools that all sixteen of its public schools earned full accreditation for 2007. Both E.C. Glass and Heritage High Schools were recognized in *Newsweek's* listing of Top 1000 High Schools in the United States for the third year in a row. Lynchburg City Schools was also the recipient of the 2007 Title I Distinguished School Division Recognition awarded by the Virginia Department of Education.

Infrastructure

In addition to the projects outlined in the Downtown and Riverfront Development/Redevelopment section of this letter, the City continues to focus on major infrastructure projects in other areas as well.

Council voted to build a new Juvenile and Domestic Relations Court. This new building will have the first "green" roof in the City and will be built using Leadership in Energy and Environmental Design (LEED) certification standards. Construction is scheduled to begin in January 2008. Council also voted to replace Sandusky Middle School instead of completing extensive renovations. This school building will also be designed and built to meet LEED certification standards. The school is currently in the design phase.

Projects completed in FY 2007 involved transportation and economic and community development type projects. Design is completed and a contract has been awarded for the improvement of existing alignment on Breezewood Drive from Route 221. This will open the flow of traffic and help resolve traffic safety issues in that area. A \$1.5 million improvement to the Old Graves Mill Road and Graves Mill Road intersection opened another travel route for employees at nearby businesses and added a traffic signal to improve traffic flow and safety. Along with this improvement, the upper section of Graves Mill Road was widened from the existing two lanes to three lanes to provide a safer traffic flow. Multiple culverts are being designed for replacement, including two large culverts on Wards Ferry Road.

Repairs to the Martin Luther King Jr., Memorial Bridge and preliminary engineering designs for replacement of the Florida Avenue Bridge and repairs to the Rivermont Avenue Bridge have commenced.

Information Technology

The City continued to leverage and expand the use of information technologies across departments to improve customer service and efficiency. For the third consecutive year, the City was recognized as one of the top ten “most technology-advanced cities in America” by the Center for Digital Government for cities of its size. In FY 2007, for cities in the population category of 30,000 – 74,999, Lynchburg placed fifth in the nation for its use of information technologies to improve service delivery to citizens and to advance the concept of digital government.

The City purchased a building in FY 2007 and renovations are being completed to house the City’s Information Technology Department and also the City School’s Information Technology staff and equipment. This facility will significantly improve the technology environment for the data center, providing better power backup capacity, improved air conditioning and humidity controls, and enhancements to physical security. Co-location with the City School's Information Technology organization, in the form of a shared computer room and shared office space, will also address important needs for the School's operation.

Public Safety

Lynchburg currently enjoys the lowest crime rate of any independent city in the Central Virginia region. One of the biggest reasons for this success involves the Lynchburg Police Department’s implementation of a “community policing” organizational philosophy in 1996, stressing cooperation and communication between police officers and the community they serve. In November, 1989, the department became the 124th law enforcement agency in the nation to be accredited by the Commission of Accreditation of Law Enforcement Agencies with re-accreditation in November 1994, 1999, 2002, and 2005. Approximately 70% of Lynchburg Police Officers have earned a college degree and many officers have received a variety of specialized training throughout the country.

In an effort to further develop strong working relationships with citizens, the Lynchburg Police Department developed and implemented the Concerned Reliable Citizens’ Program. This program provides citizens with a means of confidentially providing information to the police related to ongoing criminal activity. This program has received national attention, and recently, Tulsa, OK implemented the Concerned Reliable Citizens’ program.

As a result of the excellent work of the dedicated men and women of the Lynchburg Police Department, the Department was honored with the following recognition and awards:

- The 2006 HEAT (Help Eliminate Auto Theft) Award for special efforts in auto theft reduction.
- The 2006 Virginia Law Enforcement Challenge Award which is bestowed upon the law enforcement agencies that promote traffic safety through the implementation of innovative and creative strategies in the areas of occupant protection impaired driving, and speeding.
- Lynchburg Police Department was recognized by the Virginia Department of Criminal Justice Services as one of thirteen Certified Crime Prevention Communities in the Commonwealth of Virginia. This distinction is a result of the efforts of the partnerships with the community to ensure Lynchburg is a safe place to live.

In July of 2006, an Assessment Team of the Commission on Fire Accreditation International (CFAI) completed a comprehensive review and appraisal of the Lynchburg Fire and EMS Department

based upon the 6th Edition of the Fire and Emergency Services Self Assessment Manual. The Commission's goals are to "promote organizational self-improvement and to award accreditation status in recognition of good performance." The Assessment Team's objectives were to "validate the department's self study accreditation manual, identify and make recommendations for improvement, issue a report of findings and conclude if the department is eligible for an award of accreditation."

After extensive review of the department with regard to governance and administration, assessment and planning, financial resources, programs, physical resources, human resources, training and competency, essential resources, and external system relationships, the Accreditation Team certified the department met all core competencies and criteria, and subsequently awarded the department a "credible" rating in all categories. Additionally, the Team recommended that the department be awarded accreditation status.

On September 13, 2006, at its meeting in Dallas, Texas, the Commission on Fire Accreditation International concurred with the Accreditation Team's recommendation and officially awarded accreditation status to the Lynchburg Fire and EMS Department.

Library

During FY 2007, the Friends of the Lynchburg Public Library concluded a year-long celebration of the library's founding 40 years earlier, in 1966, as the City's first tax-supported public library. The celebration was supported by the local newspaper, which ran monthly articles on library activities, and other media. The Friends also sponsored their first Endowment Fund Campaign with a goal of \$140,000; they exceeded the goal by raising \$150,000 from 390 individuals. For their efforts, the Lynchburg Friends were recognized as the "Friends of the Year" by the Virginia Library Association.

Also during FY 2007, the library's *Born to Read* program provided books to the families of 2,277 newborns at Virginia Baptist Hospital. In 7 years, the endowed program has distributed 16,523 books. The library experienced the busiest year in a decade with 544,000 items circulated.

Utilities

In FY 2007, the Utilities Department received the following awards:

- The Environmental Protection Agency's (EPA) *PISCES Award (Performance and Innovation in the State Revolving Fund Creating Environmental Success)* - This was for the effective and efficient use of the State Revolving Loan money achieving significant environmental and economic benefits with innovative and effective projects. The EPA's Mid-Atlantic Administrator stated the following, "The City of Lynchburg has set a marvelous example for communities that have old and outdated sewage systems by effectively using Federal and State funding to make improvements and drastically reduce pollution."
- Virginia Department of Health's (VDH) *Excellence in Waterworks Performance Award* - This was for exceeding EPA's standards for safe drinking water by continuously producing water that is 3 times cleaner than the standard.

Aviation

Lynchburg Regional Airport is owned and operated by the City of Lynchburg and is a full service airport offering an array of aeronautical services including scheduled airline service, aircraft charter, maintenance and avionics, fuel services, flight training, aircraft storage, and State Police emergency med-

flight services. As the primary commercial service airport for central Virginia, Lynchburg Regional Airport's market area contains a population of more than 228,600.

Noteworthy accomplishments at Lynchburg Regional Airport during FY 2007 include:

- The 1,301-foot runway extension became operational on August 12, 2007 and is the culmination of many years of logistical and financial planning. This five-phase project began in September 2003 with an environmental assessment and involved land acquisition, engineering/design, and finally, construction. The total project cost of approximately \$14.9 million has been funded entirely with a combination of federal entitlement and discretionary funds, state entitlement funds, and Passenger Facility Charge (PFC) funds.
- In August 2006, the Airport received a \$250,000 Small Community Air Service Development Program grant to be used to attract new airline service with a northern hub feed. Discussions with Colgan Air (now a part of Pinnacle Airlines) to bring United Airlines Express service back to Washington Dulles, although still a possibility, have met logistical obstacles. If unsuccessful, airport management will approach US Airways for possible service to its major hub and international gateway in Philadelphia.
- In the spring of 2007, the Virginia General Assembly passed legislation authorizing the formation of a regional independent airport authority to own and operate Lynchburg Regional Airport. Discussions with other area local governments will continue in the near future to determine which entities will ultimately participate.
- In August 2006, the first tenants of the newly-constructed 12 T-hangar complex began occupancy. The complex has enjoyed 100% continuous occupancy.

Prospects for the Future

The City of Lynchburg is guided by a vision that addresses the challenges of an urban central city and builds on the strengths inherent in the City and the region. That vision supports community character, economic prosperity, good government, multicultural diversity and sees the City as a compelling destination for visitors.

Through sound fiscal management and making difficult choices, the City copes with the financial challenges inherent in older core cities as it works to fulfill City Council's vision. Efforts to implement the vision include the development of specific objectives by which to measure progress. The City has joined a consortium of other Virginia localities as part of the ICMA Center for Performance Measurement in order to better document results and benchmark against other communities. Internally, efforts will continue to identify improvements in technology, processes, and employee training and development to help the City maintain excellent core services while addressing new opportunities in a fiscally responsible manner.

Perhaps the biggest challenge facing the City is the maintenance of its extensive infrastructure of roads, sewers, water lines and buildings. Many facilities have reached or are reaching the end of their projected lives and their replacement or upgrade present enormous costs. Extensive repairs are needed to several schools, many roads and bridges need to be upgraded, and new federal and state mandates may require significant enhancements to water and wastewater treatment facilities. While City revenues continue to experience modest growth, the City's debt capacity is approaching its limit, preventing extensive borrowing to address capital needs.

Considerable capital investment needs to occur in several priority areas. First of all, the City's commitment to the Schools' facilities will continue to require significant resources. Renovations to E. C. Glass High School were completed in FY 2006 and Council voted to replace Sandusky Middle instead of renovate the current structure. Future renovations to Heritage High School and several elementary schools are also planned. Second, there needs to be continued investment in the downtown/riverfront area and to continue work on implementing both the Midtown and Fifth Street plans. It has already been demonstrated that public investment encourages significant private investment, strengthening the City's tax base. There is a growing feeling that downtown redevelopment is reaching the critical mass of residential, business, and institutional activities necessary for it to become self-sustaining for the long term. The same success needs to be realized in other areas of the City needing revitalization. Finally, future capital investment is required in the CSO program and in the maintenance of the City's streets, bridges, and sidewalks.

Economic development activities will focus on promoting the City as a good place to live and work within Region 2000. Marketing efforts will target prospects for both downtown and the City's public and private industrial parks. Recognizing that economic development anywhere in the region provides benefits to Lynchburg, the City will support marketing efforts in neighboring jurisdictions as well. Tourism will continue to play an important role. In FY 2007, recommendations from the Tourism Task Force that City Council appointed were received. City Council will use these recommendations to make decisions in the upcoming budget cycle regarding tourism. The City will continue working to accommodate appropriate commercial development to serve the region with shopping and dining opportunities. Lynchburg Regional Airport will remain an important transportation link for the area with a longer runway for expanded service.

On the state level, the City will remain active in the Virginia First Cities Coalition pushing for a statewide urban policy, tax reform, adequate funding for education, and other shared responsibilities. As instrumentalities of the state, the success of cities depends on the structure, environment and support provided by state government. Multiple studies have demonstrated the relative disadvantage under which cities in Virginia operate. The long-term viability of the Commonwealth's older core cities depends on the recognition of their importance to its regions and a fuller sharing of the costs and benefits of providing services to those communities.

While the challenges are many for the City, so are the opportunities for success. The City will continue to take the steps necessary to become the progressive community outlined in Council's Vision.

Risk Management

The City's Self-Insurance Plan and Risk Management Program combine self-insurance and third-party insurance coverage. The City is self-insured for workers' compensation, general liability, and automobile liability claims with outside insurance coverage for excess claims. The City also provides healthcare coverage through a professionally administered self-insurance program. The City has extended coverage for environmental issues and for the Lynchburg Regional Airport. Additionally, the City continues to expand its employee health and wellness program and employs an Occupational Health Nurse. An outline of the City's Risk Management Program and related coverage is provided in the footnotes to the financial statements.

Cash Management

The City uses a pooled cash concept to allow greater investment flexibility and consequently a better return on investments. All of the available City and Schools' cash, except for cash managed by fiscal agents, is pooled for investment purposes with maturities planned to coincide with cash needs. Cash temporarily idle during the year is invested in accordance with the Council-adopted Investment

Policy. The City continues to contract with a private investment firm to assist in evaluating various investment alternatives to increase investment income. The Investment Policy's objectives are to ensure safety for the investment portfolio's principal, provide sufficient availability of funds to meet cash requirements, and maximize the investment rate of return on permitted investments in accordance with federal, state, and local laws and other regulations governing the investment of public funds.

Certificates of Achievement for Excellence

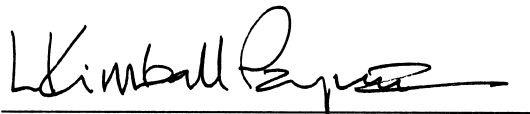
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lynchburg for its CAFR for the fiscal year ended June 30, 2006. This was the tenth consecutive year the City achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

For the second consecutive year, GFOA also awarded the Distinguished Budget Presentation Award to the City of Lynchburg for its FY 2007 Adopted Budget. This award program was designed to encourage governments to prepare budget documents of the highest quality to meet the needs of decision-makers and citizens.

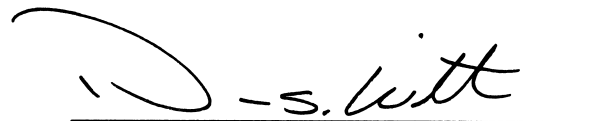
Acknowledgments

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the staff of the Financial Services Department. Each member of the department has our appreciation for the contributions made by them in the preparation of this Report. Appreciation is expressed also to City Council for its interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



L. Kimball Payne, III
City Manager



Donna S. Witt
Director of Financial Services

CITY OF LYNCHBURG, VIRGINIA
COUNCIL-MANAGER FORM OF GOVERNMENT

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2007

CITY COUNCIL

Joan F. Foster, Mayor

Bertram F. Dodson, Jr., Vice-Mayor
Michael A. Gillette
Rev. Ceasor T. Johnson

Dr. T. Scott Garrett
Jeff S. Helgeson
Joseph M. Seiffert

SCHOOL BOARD

Julie P. Doyle, Chairman

Thomas H. Webb, Vice Chairman
Rev. Keith R. Anderson
Katherine K. Banks
Albert L. Billingsly

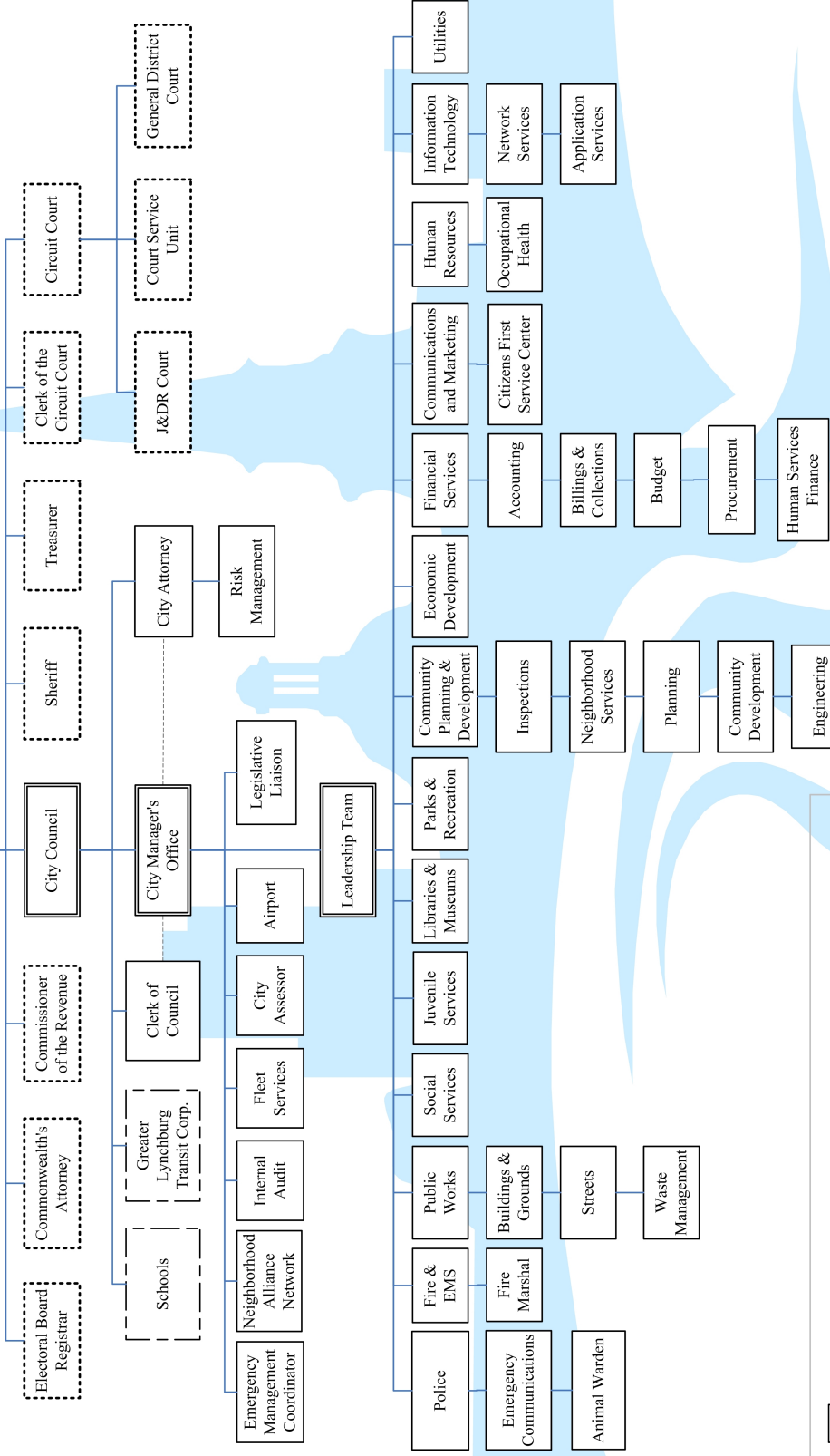
Leslie J. Faircloth
Ellis M. Frankfort
Charles C. Hooks, Jr.
Sterling A. Wilder

OFFICIALS

L. Kimball Payne, III
Bonnie Svrcek
Walter C. Erwin
Donna Witt
Dr. Paul McKendrick
Dr. Roger L. Roberts
Dr. Stephen C. Smith
Beverly A. Padgett

City Manager
Deputy City Manager
City Attorney
Director of Financial Services
Superintendent of Schools
Deputy Superintendent
Assistant Superintendent for Curriculum and Instruction
Chief Financial Officer

CITY OF LYNCHBURG Citizens



Reports directly to City Council or City Manager

Functions funded by the City but do not report directly to City Council or City Manager

Constitutional or State mandated functions.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lynchburg
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Members of the City Council and the City Manager
City of Lynchburg, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lynchburg, Virginia, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit referred to as the Business Development Centre, Inc., whose statements reflect total assets of \$1,151,885 as of June 30, 2007, and total revenues of \$387,860 for the year then ended. Those financial statements were audited by another auditor whose report, dated August 31, 2007, has been furnished to us; and our opinion, insofar as it relates to the amounts presented as the Business Development Centre, Inc., is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the required supplementary information on pages 3a to 3r and page 50, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual non-major fund statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. In addition, the accompanying schedules of passenger facility charges and of expenditures of passenger facility charges are presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements, the schedule of expenditures of federal awards, and the schedule of expenditures of passenger facility charges have been subjected to the auditing procedures applied by us and the other auditor in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 16, 2007

CITY OF LYNCHBURG, VIRGINIA

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of the City of Lynchburg's (City) financial statements offers the readers a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2007. The Lynchburg City Schools (Schools) component unit is included in this narrative also. The information presented here should be considered in conjunction with additional information provided in the Letter of Transmittal.

FINANCIAL HIGHLIGHTS

- The total assets of the City exceeded its total liabilities at June 30, 2007 by \$366.6 million (net assets). Unrestricted net assets of \$92.4 million were available to meet future obligations. This represented \$56.8 million for governmental activities, which included the General Fund, and \$35.6 million for business-type activities, which included the Enterprise Funds (Solid Waste Management, Water, Sewer, and Airport).
- The General Fund's undesignated fund balance of \$24.7 million was 17% of total General Fund revenues, which were \$146.1 million. This was \$10.1 million more than the City Council adopted Undesignated Fund Balance Policy requirement of 10%, or \$14.6 million.
- In comparison with the prior fiscal year, the City's total net assets increased 7%, or \$24.4 million, from FY 2006 as restated. Net assets of governmental activities increased 5%, or \$9.6 million, from FY 2006 as restated; and, net assets of business-type activities increased 10%, or \$14.8 million. The Schools' total net assets increased 35%, or \$0.8 million, from FY 2006 as restated. Please refer to Note 19 of this report for details regarding FY 2006 restated net assets.
- The City's total revenues of \$213.3 million increased 5%, or \$9.7 million, and total expenses of \$188.9 million increased 4%, or \$7.1 million, from FY 2006. General revenues and transfers of \$121 million were \$24.4 million more than the expenses net of program revenues of \$96.6 million.
- For the current fiscal year, the City's total liabilities of \$299.6 million decreased by 1%, or \$4.2 million. Total new long-term debt of \$7 million for business-type activities only was issued from the Virginia Revolving Loan Program (VRL) for sewer capital projects. The City retired \$16.6 million of outstanding principal with planned retirements of \$8.8 million for governmental activities and \$7.8 million for business-type activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report (CAFR) consists of four sections: *introductory, financial, statistical and compliance*. The financial section consists of the *independent auditor's report, management's discussion and analysis, basic financial statements and required supplementary information*. This Management's Discussion and Analysis serves as an introduction to the City's basic financial statements, which are the *government-wide financial statements, fund financial statements, and notes to the financial statements*. In addition to the required elements, an *other supplementary information* section is included which presents combining statements for non-major governmental, special revenue and capital projects funds, agency funds, discretely presented component units, budget and actual schedules for discretely presented component units, and other supplemental schedules including the statistical section.

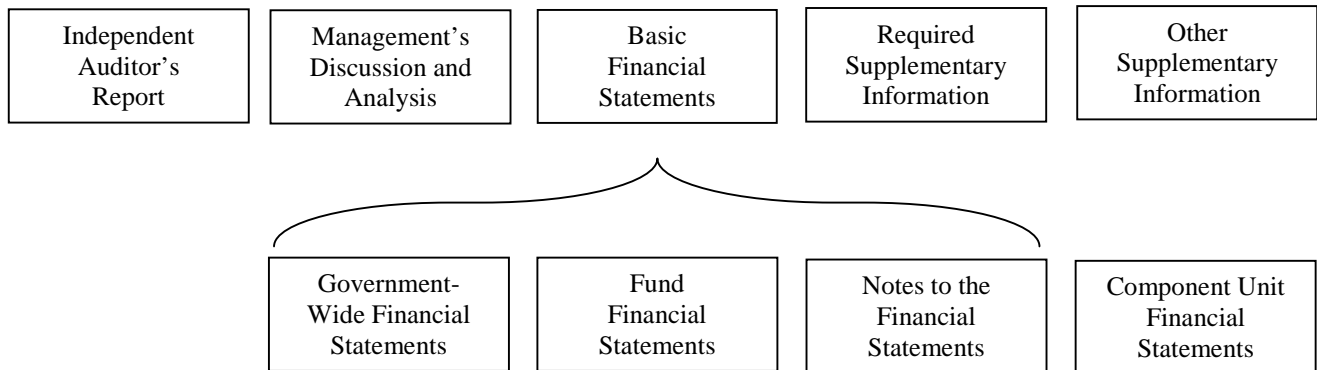
The City's basic financial statements present two kinds of statements, each with a different view of the City's finances. Both the government-wide and fund perspectives allow the reader to address relevant questions, broaden the basis of comparison and enhance the City's accountability.

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations in more detail than the government-wide statements.
 - *Governmental fund statements* tell how *general government* services like public safety are financed in the *short-term* as well as what remains available for future spending.

- *Proprietary fund statements* offer short- and long-term financial information about the activities the government operates *similar to businesses*, such as the public utilities systems (water and sewer).
- *Fiduciary fund statements* provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others to whom the resources belong.

The financial statements also include notes that detail data supporting the information in the financial statements. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A summarizes the required elements of the financial section and its organization in the CAFR.

Figure A
Required Components of the Financial Section



GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are similar to those used by private-sector companies and report information about the City as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about the City's finances and its activities to answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements combine and consolidate short-term, available resources with capital assets and long-term obligations.

The Statement of Net Assets and the Statement of Activities report the City's net assets and changes in net assets. One can think of the City's net assets – the difference between assets and liabilities – as a way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets help determine whether the City's financial position is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, the City is divided into the following:

Governmental activities - Most of the City's basic services are reported here: general government, police, fire, public works, juvenile and social services, parks and recreation, community development and fleet internal services. Primarily, property taxes, other taxes, and intergovernmental revenue finance these activities.

Business-type activities - The financial information for the solid waste management, water, sewer and airport activities are reported here. The City charges a fee to customers to fund all or most of the cost of services provided by these activities.

Component units - The City also includes three separate legal entities in its Report – the Lynchburg City Schools, the Greater Lynchburg Transit Company, and the Business Development Centre, Inc. While these represent legally separate entities, their operational or financial relationship with the City makes the City financially accountable.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate fiscal accountability. As described in the following information, the City uses governmental, proprietary, and fiduciary fund financial statements to provide detailed information regarding its most significant funds.

Governmental Funds

Governmental funds report most of the City's basic services. The funds focus on cash and other financial resources that can be readily converted to cash flows in and out, and balances left at year-end that are available for future spending. Consequently, the governmental funds statements provide a near or short-term view of the City's finances that helps the reader determine whether there are greater or fewer financial resources available in the near future to finance City programs. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statements to explain the relationship (or differences) between them.

Proprietary Funds

Proprietary funds report the same functions that are presented as business-type activities in the government-wide financial statements. Proprietary funds are classified as enterprise or internal service funds. An enterprise fund reports any activity for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided on a cost reimbursement basis from activities within the government. The City maintains four enterprise funds to account for the solid waste management, water, sewer and airport operations; and, an internal service fund to account for its fleet services. Because fleet services predominantly benefit governmental rather than business-type functions, the internal service fund is included within governmental activities in the government-wide financial statements.

Fiduciary Funds

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the City cannot use these assets for its operations.

Notes to the Financial Statements

The Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements, Transmittal Letter and the MD&A.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The Combining and Individual Fund Statements and Schedules for all Non-major Funds include the governmental, special revenue, and capital projects funds.

The Schools' and the City's financial statements are included in one Comprehensive Annual Financial Report.

The Greater Lynchburg Transit Company and the Business Development Centre, Inc. issue separate reports.

Other Supplementary Information for the City and Schools includes a Statistical Section, Schedule of Expenditures of Federal Awards and Schedules of Passenger Facility Charges Revenues and Expenditures.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

The following table reflects condensed information for the City's net assets. Percentage changes in the table below were rounded for the following narrative.

*Summary of Statement of Net Assets
As of June 30, 2007/2006
(in millions)*

	Governmental Activities		Business-Type Activities		Total Primary Government		Percent Change	Component Unit Schools	
	2007	2006 Restated	2007	2006	2007	2006 Restated	2007-2006	2007	2006 Restated
Current and other assets	\$ 88.3	\$ 87.6	\$ 71.0	\$ 68.6	\$ 159.3	\$ 156.2	2%	\$ 16.6	\$ 19.4
Capital assets	253.5	250.8	253.4	239.0	506.9	489.8	3%	2.1	2.0
Total assets	341.8	338.4	324.4	307.6	666.2	646.0	3%	18.7	21.4
Long-term liabilities	125.4	134.0	148.4	148.8	273.8	282.8	-3%	2.9	2.7
Other liabilities	19.8	17.4	6.0	3.6	25.8	21.0	23%	12.7	16.4
Total liabilities	145.2	151.4	154.4	152.4	299.6	303.8	-1%	15.6	19.1
Net Assets									
Invested in capital assets, net of related debt	139.8	139.2	134.4	125.5	274.2	264.7	4%	0.5	0.2
Restricted	-	-	-	0.3	-	0.3	-100%	-	-
Unrestricted	56.8	47.8	35.6	29.4	92.4	77.2	20%	2.6	2.1
Total net assets	\$ 196.6	\$ 187.0	\$ 170.0	\$ 155.2	\$ 366.6	\$ 342.2	7%	\$ 3.1	\$ 2.3

The City's total net assets of \$366.6 million increased 7%, or \$24.4 million, from FY 2006 as restated.

Net assets invested in capital, net of related debt, of \$274.2 million were 75% of total net assets and increased 4%, or \$9.5 million. Net assets invested in capital were not available for future expenses because they were facilities, equipment, and infrastructure, etc. utilized to provide services. Please refer to Notes 8 and 9 of this report and the MD&A's capital assets and long-term debt sections.

The City has a strong financial position with 25%, or \$92.4 million, of unrestricted net assets, which are comprised of 61%, or \$56.8 million, for governmental activities, and 39%, or \$35.6 million, for business-type activities. Unrestricted net assets available for providing services to the citizens increased 20%, or \$15.2 million.

The Schools' component unit total net assets of \$3.1 million increased 35%, or \$0.8 million from FY 2006 as restated. Unrestricted net assets of \$2.6 million increased 24%, or \$0.5 million.

Statement of Activities

The City's total revenues and expenses for governmental and business-type activities are reflected in the following table. Percentage changes in the table below were rounded for the following narrative.

Summary of Changes in Net Assets For Fiscal Years Ended June 30, 2007/2006 (in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change	Component Unit Schools	
	2007	2006	2007	2006	2007	2006	2007-2006	2007	2006
Revenues:	Restated				Restated			Restated	
Program Revenues:									
Charges for services	\$ 11.2	\$ 10.9	\$ 35.6	\$ 34.7	\$ 46.8	\$ 45.6	3%	\$ 2.7	\$ 1.7
Operating grants/contributions	33.9	32.5	0.4	0.4	34.3	32.9	4%	57.8	49.3
Capital grants/contributions	2.2	3.3	8.9	3.1	11.1	6.4	73%	-	-
General Revenues:									
Property taxes	57.3	60.2	-	-	57.3	60.2	-5%	-	-
Other taxes	46.6	44.0	-	-	46.6	44.0	6%	-	-
Unrestricted intergovernmental	9.7	9.4	-	-	9.7	9.4	3%	-	-
Interest	3.1	1.8	2.4	1.3	5.5	3.1	77%	-	-
Miscellaneous	1.9	1.6	0.1	0.1	2.0	1.7	18%	0.3	0.5
Transfers	-	-	-	0.3	-	0.3	-100%	-	-
City appropriation	-	-	-	-	-	-	-	29.0	29.9
Total Revenues	<u>\$ 165.9</u>	<u>\$ 163.7</u>	<u>\$ 47.4</u>	<u>\$ 39.9</u>	<u>\$ 213.3</u>	<u>\$ 203.6</u>	<u>5%</u>	<u>\$ 89.8</u>	<u>\$ 81.4</u>
Expenses:									
General government	12.1	11.2	-	-	12.1	11.2	8%	-	-
Judicial	5.5	5.1	-	-	5.5	5.1	8%	-	-
Public safety	40.4	39.6	-	-	40.4	39.6	2%	-	-
Public works	19.7	20.8	-	-	19.7	20.8	-5%	-	-
Health and human services	23.4	21.1	-	-	23.4	21.1	11%	-	-
Cultural and recreational	9.4	8.9	-	-	9.4	8.9	6%	-	-
Community development	6.8	6.2	-	-	6.8	6.2	10%	-	-
Education	33.5	32.6	-	-	33.5	32.6	3%	89.0	81.8
Interest & other fiscal charges	5.5	5.0	-	-	5.5	5.0	10%	-	-
Issuance costs	-	0.2	-	-	-	0.2	-100%	-	-
Transfers	-	0.3	-	-	-	0.3	-100%	-	-
Solid waste management	-	-	6.4	5.6	6.4	5.6	14%	-	-
Airport	-	-	3.5	3.5	3.5	3.5	0%	-	-
Water	-	-	9.9	9.3	9.9	9.3	6%	-	-
Sewer	-	-	12.8	12.4	12.8	12.4	3%	-	-
Total Expenses	<u>\$ 156.3</u>	<u>\$ 151.0</u>	<u>\$ 32.6</u>	<u>\$ 30.8</u>	<u>\$ 188.9</u>	<u>\$ 181.8</u>	<u>4%</u>	<u>\$ 89.0</u>	<u>\$ 81.8</u>
Change in net assets	<u>9.6</u>	<u>12.7</u>	<u>14.8</u>	<u>9.1</u>	<u>24.4</u>	<u>21.8</u>	<u>12%</u>	<u>0.8</u>	<u>(0.4)</u>
Net assets beginning - restated	<u>187.0</u>	<u>174.3</u>	<u>155.2</u>	<u>146.1</u>	<u>342.2</u>	<u>320.4</u>	<u>7%</u>	<u>2.3</u>	<u>2.7</u>
Net assets ending	<u>\$ 196.6</u>	<u>\$ 187.0</u>	<u>\$ 170.0</u>	<u>\$ 155.2</u>	<u>\$ 366.6</u>	<u>\$ 342.2</u>	<u>7%</u>	<u>\$ 3.1</u>	<u>\$ 2.3</u>

Governmental Activities

The City's governmental activities are comprised of the General Fund, Fleet Internal Services Fund, and Special Revenue Funds. Special Revenue Funds are primarily for general government Grant Funds, and City Capital and Schools' Capital Projects Funds. Total net assets of \$196.6 million increased 5%, or \$9.6 million, from FY 2006 as restated.

Net assets invested in capital, net of related debt, increased less than 1%, or \$0.6 million. Of total net assets, 71%, or \$139.8 million, was invested in capital assets, net of related debt, and not available for future expenses.

Unrestricted net assets available to provide services to citizens increased 19%, or \$9 million, and were 29%, or \$56.8 million of total net assets.

Revenues

Revenues from governmental activities of \$165.9 million increased 1%, or \$2.2 million, from FY 2006 as restated.

General revenues, specifically Property Taxes of \$57.3 million, or 35% of total revenues, and Other Local Taxes of \$46.6 million, or 28% of total revenues, were the largest components of this revenue category equaling \$103.9 million, or 63% of total revenues. Real property tax revenue of \$40.2 million was 24% of total revenues, the City's largest single revenue, and increased 4%, or \$1.4 million. The FY 2007 assessed real property tax base increased 3.5% primarily due to new construction and rehabilitation of existing structures. The City's general reassessment of real property occurs biennially and is effective on July 1 of that fiscal year. The next biennial reassessment occurred July 1, 2007 (FY 2008) and resulted in an increase of 22%, or \$0.8 billion, in assessed value of taxable real property, to \$4.5 billion from the previous \$3.7 billion assessed value. As of June 30, 2007, the real property tax rate had been \$1.11 per \$100 of assessed real property value for the last eleven years. However, the FY 2008 Adopted Budget included a \$0.06 real estate tax rate reduction from the previous \$1.11 to \$1.05 per \$100 of assessed real property value.

Of the \$57.3 million in Property Tax revenues, the City received \$15.7 million from personal property taxes, which was 9% of total revenues. This was the second largest revenue source comprised of taxes on individual automobiles, business personal property, and machinery and tools. The City received \$5.5 million from the Commonwealth of Virginia under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA). Prior to FY 2007, the State's reimbursement to the City was based on 70% of the individual taxpayer's automobile levy. The 2005 Virginia General Assembly placed a \$950 million limit on disbursements to local governments from the PPTRA Program. The State's 70% relief reimbursement of the individual taxpayer's automobile tax levy was eliminated and replaced with allocations from the \$950 million to each locality. Each locality's allocation was based upon the State's PPTRA relief reimbursements for the 2004 tax year, and disbursed quarterly in unequal amounts beginning in FY 2007. The City's allocated amount for FY 2008 is \$5.5 million. In order to provide tax relief credit for qualifying vehicles to individual taxpayers, this allocated amount was utilized in the May 2007 levy and billing. Lastly, for FY 2007, when the State reimbursement of \$5.5 million was added back to the local personal property taxes, it totaled \$21.2 million, reflecting a 19%, or \$5.1 million, decrease. This substantial decrease over the prior year is due to implementing a semi-annual installment billing process in FY 2006. Both installments were billed in May 2006 for the calendar year 2006 personal property tax levy and the motor vehicle license fee. However, only the first semi-annual installment and the motor vehicle license fee were due June 15, 2006 (due June 5th for future years). In FY 2006, \$6 million in revenue from this first installment was a one-time occurrence due to this implementation. The second installment was due December 5, 2006. At June 30, 2006, the receivable was \$5.8 million with unearned revenue of \$6.9 million due to second installment receipts of \$1.1 million prior to fiscal year end. With the new process, the first installment tax revenue is a financial resource for the current fiscal year. The second installment tax revenue is a financial resource for the next fiscal year. For FY 2006, this new process was in addition to the single installment billing process in November 2005 for the calendar year 2005 personal property tax levy. Therefore, in FY 2006, the City collected personal property tax revenues for the current fiscal year November 2005 levy as well as an additional \$6 million for the first semi-annual installment for the May 2006 levy. For FY 2007, this was the first full fiscal year after the new process implementation in which there was one levy only in May 2007 and semi-annual installments due December 2006 and June 2007.

Other Taxes of \$46.6 million, or 28% of total revenues, was comprised of revenue from Local Sales, Meals, Consumer Utilities, and Business Licenses Taxes. Local Sales Tax revenue were \$14.5 million and increased 9%, or \$1.2 million. Meals Tax revenue of \$10 million increased 6%, or \$0.6 million. Consumer Utilities Tax revenue of \$5.8 million decreased 15%, or \$1 million. Business Licenses Tax revenue of \$7.9 million increased 3%, or \$0.2 million. The combination of these revenues resulted in an overall increase of 6%, or \$2.6 million, in Other Taxes revenue.

Operating grants and contributions of \$33.9 million, or 21% of total revenues, were comprised of revenues from the Commonwealth of Virginia and the federal government mainly for health and human services, public works, public safety, community development, and judicial activities. The 4%, or \$1.4 million, overall increase was due to revenues from the following programs. Health and human services increased \$1.6 million comprised of \$1.2 million from the Comprehensive Services Act, \$0.2 million for social services administration, and \$0.2 million for the Workforce Investment Act programs. Public works increased \$0.6 million from the Virginia Department of Transportation (VDOT) streets and highways maintenance program. Public safety programs decreased \$0.6 million due to one-time FY 2006 revenues from the Community Oriented Police Services (COPS), Homeland Security, and Firefighters programs. Lastly, community development decreased \$0.2 million from the Lead Hazard Control program and decreased \$0.1 million from the Community Development Block Grant program while increasing \$0.1 million from the Governor's Opportunity Fund program.

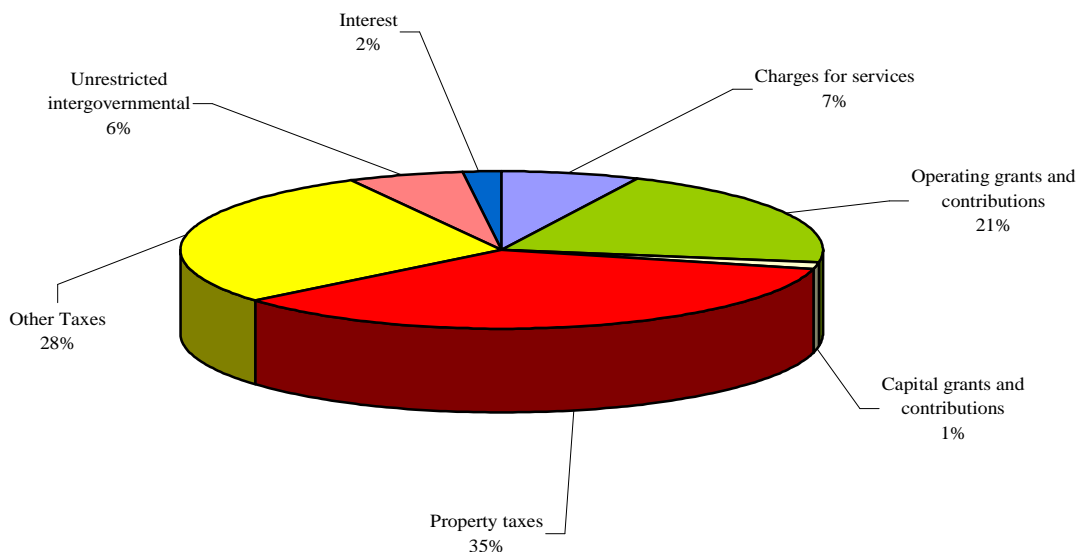
Charges for services of \$11.2 million, or 7% of total revenues, increased 3%, or \$0.3 million. This was primarily due to \$0.5 million of increased public safety revenue related to the Juvenile Detention Home facility's increased population. Participating jurisdictions including the City of Lynchburg are charged per diem rates based on their respective detainee population. In addition, community development revenue decreased \$0.2 million for building inspection permit fees.

Unrestricted intergovernmental revenues of \$9.7 million, or 6% of total revenues, increased 3%, or \$0.5 million, due to an increase of \$0.5 million from House Bill 599 funding and a decrease in the PPTRA program allocation of \$0.2 million. Both of these revenues are from the Commonwealth of Virginia.

Lastly, investment earnings of \$3.1 million, or 2% of total revenues, increased 72%, or \$1.3 million, due to favorable market conditions and continued expansion of the investment program.

The following chart reflects the governmental activities distribution of revenues by source.

Revenue by Source-Governmental Activities



Expenses

Governmental activities expenses totaled \$156.3 million, which included the following increases in expenses from FY 2006 as restated: 3% (average) for City employees' performance based compensation; employee/retiree benefits and workers' compensation; public safety; youth and adult detention; buildings, bridges, streets, and highway maintenance; social services programs including the Comprehensive Services Act; fuel; and depreciation. Education increased 3%, or \$0.9 million, from a \$0.5 million local contribution increase in addition to depreciation. Overall, this represented a 4% increase, or \$5.3 million, as compared to the prior year for governmental activities expenses.

The following table indicates the total cost of services and net cost of services for governmental activities.

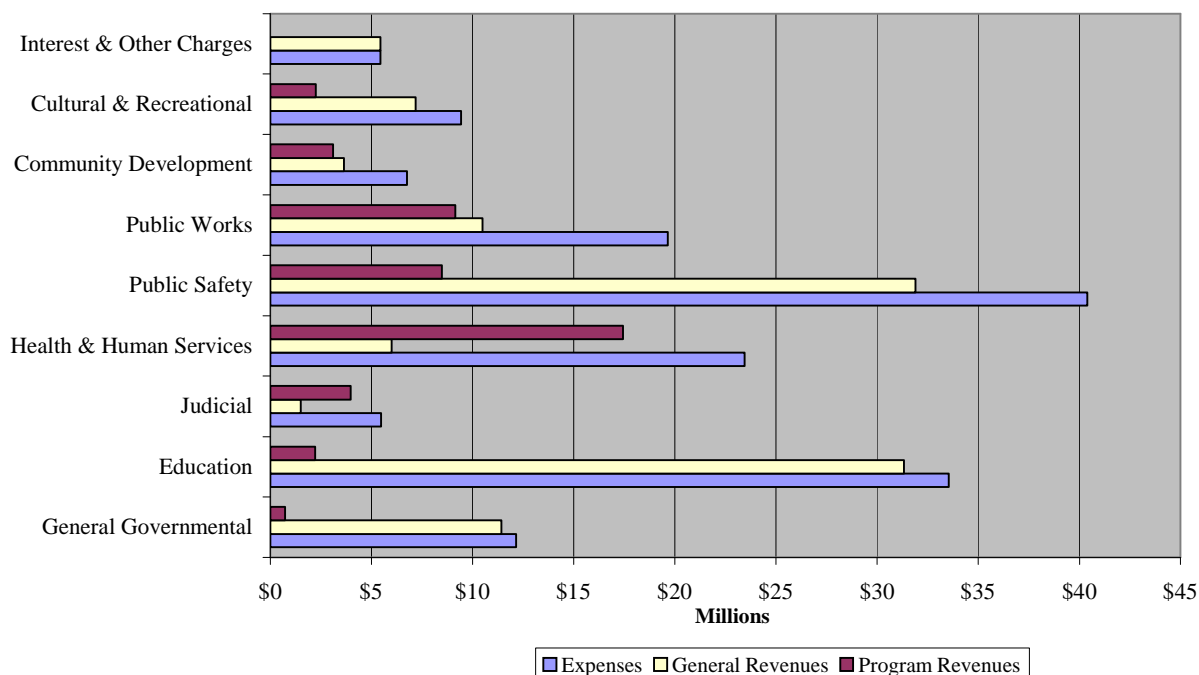
***Net Cost of Governmental Activities
For Fiscal Years Ended FY 2007/2006
(in millions)***

Governmental Activity	Total Cost of Services		Percentage Change 2007-2006	Net Cost of Services		Percentage Change 2007-2006
	2007	2006 Restated		2007	2006 Restated	
General government	\$ 12.1	\$ 11.2	8%	\$ 11.4	\$ 10.5	9%
Judicial	5.5	5.1	8%	1.5	1.2	25%
Public safety	40.4	39.6	2%	31.9	31.1	3%
Public works	19.7	20.8	-5%	10.5	10.6	-1%
Health and human services	23.4	21.1	11%	6.0	5.3	13%
Cultural and recreational	9.4	8.9	6%	7.2	6.9	4%
Community development	6.8	6.2	10%	3.6	2.5	44%
Education	33.5	32.6	3%	31.3	30.8	2%
Interest payments & other fiscal charges	5.5	5.0	10%	5.5	5.0	10%
Issuance costs & other	-	0.5	-100%	-	0.5	-100%
Total Governmental Activities	<u>\$ 156.3</u>	<u>\$ 151.0</u>	<u>4%</u>	<u>\$ 108.9</u>	<u>\$ 104.4</u>	<u>4%</u>

The four largest funded programs were public safety at 26%, or \$40.4 million; local support for education at 21%, or \$33.5 million; health and human services at 15%, or \$23.4 million; and public works at 13%, or \$19.7 million. Education continued to be one of the highest priorities and commitments. In addition to the local operating contribution, the City contributed \$4.8 million to the Schools for capital projects.

As demonstrated in the previous table, the governmental activities total cost of services and net cost of services increased 4% from the prior year. The Statement of Activities shows that the \$156.3 million in governmental activities program expenses were financed by \$11.2 million (7%) from those receiving services, \$33.9 million (22%) from operating grants and contributions, \$2.2 million (1%) from capital grants and contributions, and \$108.9 million (70%) from general revenues. Overall, general revenues and transfers of \$118.5 million were \$9.6 million more than the \$108.9 million of expenses net of program revenues. The following graph compares governmental activities program expenses and program revenues along with general revenues funding required for each program.

Program Expenses and Program Revenues - Governmental Activities



Business-type Activities

The business-type activities are comprised of Enterprise Funds for solid waste management, water, sewer, and airport operations. Total net assets of \$170 million increased 10%, or \$14.8 million, from FY 2006.

Net assets invested in capital, net of related debt, increased 7%, or \$8.9 million. For total net assets, 79%, or \$134.4 million, was invested in capital, net of related debt, and not available for future expenses.

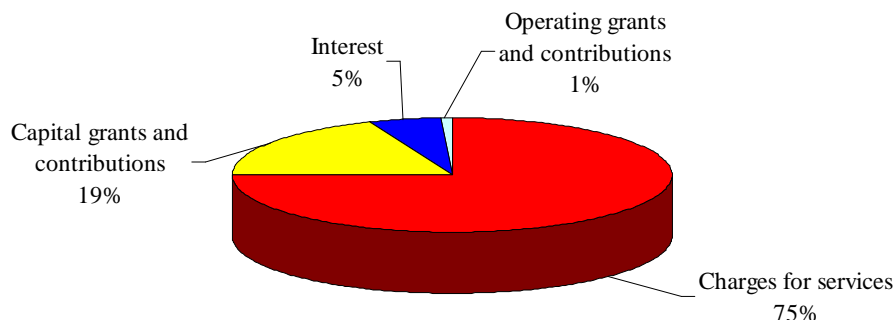
Unrestricted net assets available to provide services to citizens increased 21%, or \$6.2 million, and were 21%, or \$35.6 million, of total net assets.

Revenues

Business-type activities revenues of \$47.4 million increased 19%, or \$7.5 million, from the prior year. This was primarily due to increases in charges for services of 3%, or \$0.9 million, from 4% rate increases for water and sewer services. Investment earnings increased 85%, or \$1.1 million, due to favorable market conditions and continued expansion of the investment program. Intergovernmental operating/capital grants contributions increased 166%, or \$5.8 million, primarily related to federal funding for the Lynchburg Regional Airport's runway extension project. Of the \$47.4 million in total revenues, 75%, or \$35.6 million, was from charges for services; 20%, or \$9.3 million, was from operating/capital grants and contributions; and, 5% or \$2.5 million, was from investment earnings and miscellaneous revenues.

The following chart reflects the business-type activities distribution of revenues by source.

Revenues by Source - Business-type Activities



Expenses

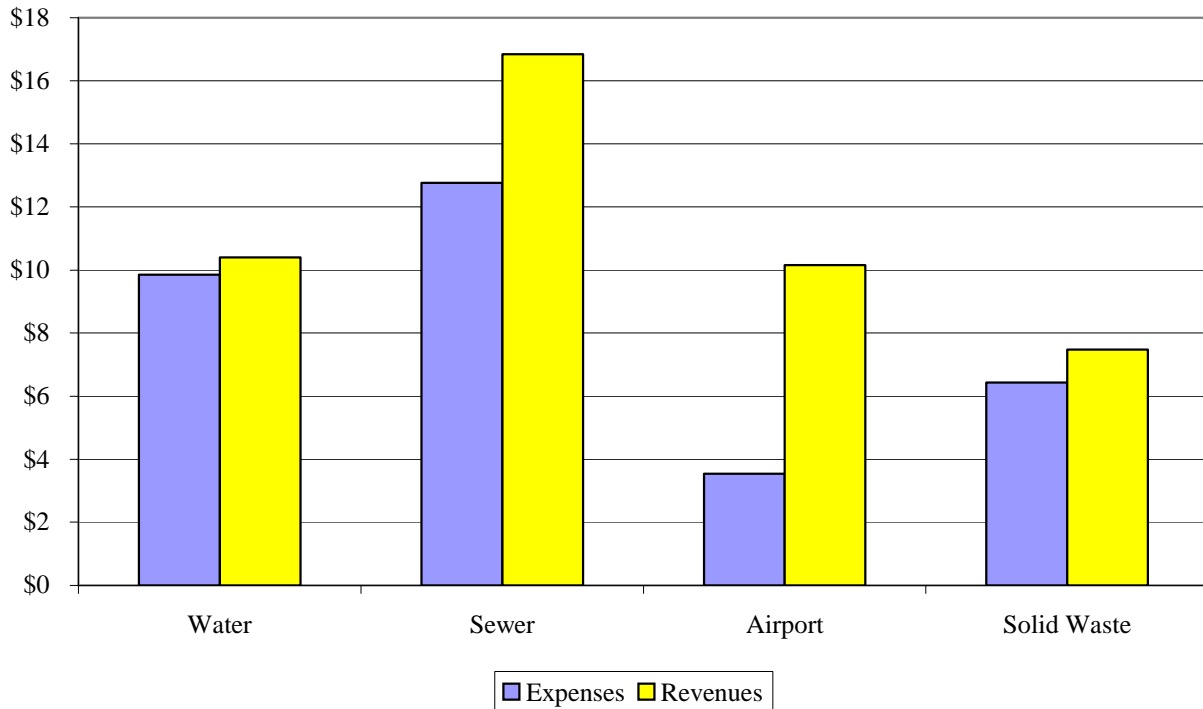
Business-type activities expenses of \$32.6 million increased 6%, or \$1.8 million, from the prior year. This was due primarily to increased personal services and benefits, non-recurring operation and maintenance, fuel, landfill closure and post closure costs, computer software, interest on debt, and depreciation.

The Proprietary Funds provide the same type of information reported in the government-wide financial statements for business-type activities, but in more detail. Please refer to the MD&A's section on Financial Analysis of the Fund Financial Statements-Proprietary Funds for detailed analysis of the business-type activities major funds.

Overall, business-type activities revenues of \$47.4 million were \$14.8 million more than expenses of \$32.6 million.

The following graph compares the business-type activities program expenses and program revenues.

Program Expenses and Program Revenues - Business-type Activities



Component Unit – Schools

The Schools' total net assets of \$3.1 million increased 35%, or \$0.8 million, from FY 2006 as restated. This was primarily due to an increase in unrestricted net assets of 24%, or \$0.5 million, resulting from charges for services and intergovernmental revenues exceeding expenses for the fiscal year. Unrestricted net assets were \$2.6 million. Additionally, net assets invested in capital, net of related debt, of \$0.5 million, increased 150%, or \$0.3 million, due to capital lease obligations and related equipment acquisitions.

Revenues

Total revenues of \$89.8 million increased 10%, or \$8.4 million, in comparison with the prior year fund financial statements primarily due to increased revenues from the Commonwealth of Virginia. For FY 2007, 53%, or \$47.8 million, of total revenues were received from the Commonwealth of Virginia, which included \$9.1 million in sales tax receipts. The City government contributed 32%, or \$29 million, to education. Federal revenues of 11%, or \$10 million, included \$3.5 million from Title I funds to provide educational services to economically disadvantaged students and \$2.1 million to provide special education services for students with disabilities. School Nutrition revenues of \$3 million included \$2.2 million from the federal government for the operation of the breakfast and lunch programs. Other revenue sources of 3%, or \$3 million, included the following: school meals sales; tuition paid by participating school divisions to the Central Virginia Governor's School for Science and Technology; and, other miscellaneous sources.

Expenses

Total expenses of \$89 million increased 9%, or \$7.2 million, from the prior year primarily due to personal services and benefits costs. For FY 2007, 75%, or \$67.1 million, of total expenses related directly to providing instruction to 8,622 students and 14%, or \$12.8 million, supported maintenance and operations of school division facilities including the School Nutrition Program. Transportation costs for students were 5%, or \$4.1 million, while administration for the schools and attendance and health services for students were 3%, or \$3 million. Capital outlays in the fund financial statements of 2%, or \$2 million, of total expenses included the acquisition of equipment. Purchases from capital lease proceeds of \$1 million were included in capital outlay expenditures in the fund financial statements.

FUND FINANCIAL ANALYSIS

Governmental Funds

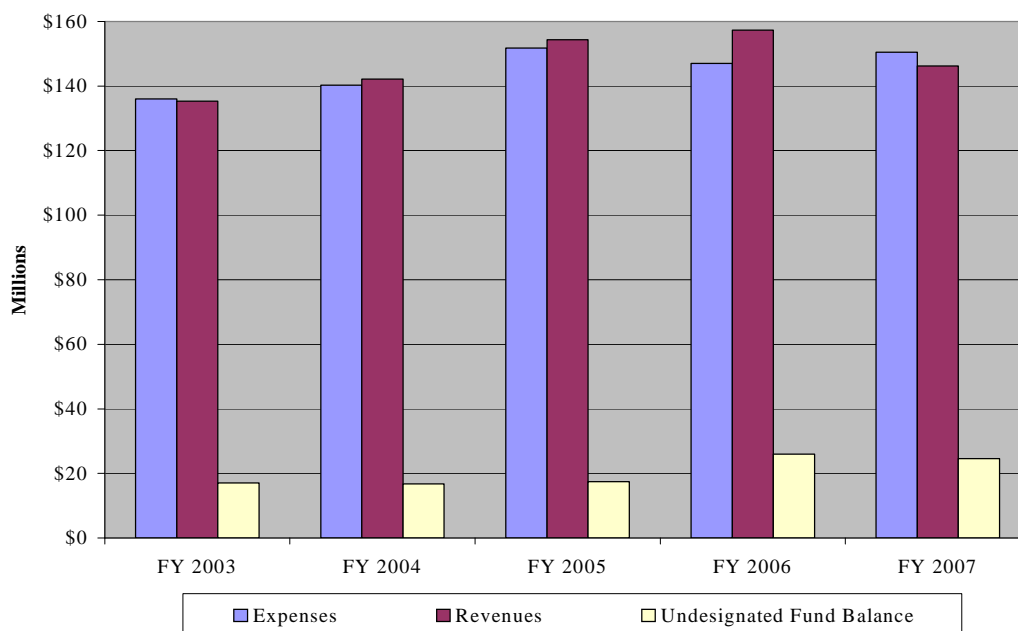
Governmental Funds include the General Fund and Other Governmental Funds, which are comprised of the Special Revenue and Capital Projects Funds. The Governmental Funds' focus is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for future spending.

- For FY 2007, the City's Governmental Funds reported combined fund balances of \$55.4 million. The combined fund balances decreased 5%, or \$3.1 million, from FY 2006 as restated to \$58.5 million. The decrease was due to the General Fund's programmed use of fund balance for transfers to the City Capital Projects Fund of \$8.2 million, transfers to the School Capital Projects Fund of \$3.1 million, and operating transfers to/from various funds of \$3.8 million for a total of \$15.1 million. When combined with the FY 2007 excess of revenues over expenditures of \$10.8 million, the General Fund's net decrease in fund balance was 12%, or \$4.3 million. Special Revenue Funds decreased 21%, or \$0.9 million, due to use of the \$0.5 million fund balance of the E-911 Fund followed by its subsequent closing of residual fund balance into the General Fund; and, the use of \$0.4 million of fund balance in the City/Federal/State Aid Projects Fund. Capital Projects Funds increased 12%, or \$2.1 million, represented by \$2.6 million in the School Capital Projects Fund for future expenditures, and use of \$0.5 million of fund balance in the City Capital Projects Fund. The combination of changes in the General Fund, Special Revenue Funds and Capital Projects Funds resulted in the \$3.1 million overall decrease in combined fund balances.
- Of the combined fund balances, 74%, or \$41.2 million, were undesignated fund balances available for future expenditures; and, were represented by \$24.7 million for the General Fund, \$2.9 million for Special Revenue Funds, and \$13.6 million for Capital Projects Funds. The undesignated fund balances increased 3%, or \$1 million, from FY 2006 as restated.
- Of the combined fund balances, \$7.6 million was designated, indicating commitment to specific uses comprised primarily of \$3.7 million designated for the Schools, \$2.4 million for the City's self-insurance program, \$0.4 million for capital projects, and \$0.3 million in the Special Revenue Funds. The designated fund balances decreased 30%, or \$3.2 million, primarily due to a \$2.8 million decrease in Schools' designations. The FY 2007 reserve for encumbrances of \$6.2 million was primarily \$0.9 million for Schools' capital projects and \$4.6 million for general government infrastructure projects. Please refer to Note 11 of this report for details of all designations.

General Fund

The General Fund is the chief operating fund of the City. The following graph and table present a five-year summary of financial information for expenditures, revenues and undesignated fund balances as well as a FY 2007 summarized comparison of amended budget versus actual information.

Five-Year General Fund Financial Summary



General Fund Budgetary Highlights
For Fiscal Year Ended June 30, 2007
(in millions)

<u>Description</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Amended versus Actual</u>
<u>Revenues & Other Financing Sources</u>				
Taxes	\$ 99.3	\$ 101.2	\$ 102.5	\$ 1.3
Intergovernmental	30.7	32.1	31.3	(0.8)
Other	11.1	12.6	12.4	(0.2)
Total	141.1	145.9	146.2	0.3
<u>Expenditures & Other Financing Uses</u>				
Expenditures	138.2	141.4	135.3	6.1
Transfers	11.6	15.3	15.2	0.1
Total	149.8	156.7	150.5	6.2
<u>Change in Fund Balance</u>	<u>\$ (8.7)</u>	<u>\$ (10.8)</u>	<u>\$ (4.3)</u>	<u>\$ 6.5</u>

Actual expenditures and other financing uses of \$150.5 million were greater than revenues and other financing sources of \$146.2 million by \$4.3 million, which was less than the projected decrease in fund balance of \$10.8 million of the amended budget. The FY 2007 original and amended budgets included the use of \$8.7 million and \$10.8 million, respectively, of the FY 2006 General Fund's undesignated fund balance primarily to resource a \$7.9 million transfer out for general government capital projects. This was in accordance with City Council's adopted Fund Balance Policy (revised December 2006), which states that funds in excess of the targeted fund balance of ten percent (10%) of General Fund revenues may be considered to supplement "pay-as-you-go" capital outlay expenditures. Because of the FY 2006 implementation of the new semi-annual installment billing process for personal property, there was a one-time additional \$6 million in personal property tax revenue. This \$6 million was included as part of the total FY 2007 pay-as-you-go transfer out of the General Fund of \$7.9 million for capital projects. In summary, because of the increased actual revenues above the amended budget of \$0.3 million and the actual expenditures below the amended budget of \$6.2 million, the actual use of fund balance was \$4.3 million for FY 2007.

Actual revenues were greater than estimated and within 0.2%, or \$0.3 million, of the amended budget; however, the taxes category realized \$1.3 million more revenue than the amended budget. Communication utility taxes were consolidated by the State beginning in January 2007 into one Communications Sales & Use Tax. The State collects the tax and allocates/distributes it monthly to localities. The allocation is based on the percentage of telecommunications and television cable funds (local consumer utility tax on landlines and wireless, E-911, business license tax in excess of 5%, cable franchise fee, video programming excise tax and local consumer utility tax on cable television) received by the locality in FY 2006 from local tax rates adopted on or before January 1, 2006. FY 2007 revenue was \$1.7 million compared to an estimated budget of \$0.9 million. The Commonwealth of Virginia has stipulated that the effect of this change will be revenue neutral. As of the end of FY 2007, revenue analysis of this tax is ongoing to monitor the long-term impact of this change. Intergovernmental revenue was less than anticipated in the amended budget by \$0.8 million primarily due to a decrease of social services administration programs funded by federal and State funds. The Other revenue category was \$0.2 million less than the amended budget.

Actual expenditures and transfers were \$6.2 million less than the FY 2007 amended budget and attributable to the following unexpended appropriations:

- \$2 million for general government
- \$1.3 million for education based on a City/Schools agreement to return unexpended Schools fiscal year end funds to the General Fund for subsequent fiscal year re-appropriation to the Schools for one-time expenditures.
- \$0.8 million for public safety
- \$0.5 million for public works
- \$0.7 million for health and human services
- \$0.5 million for cultural and recreation, and community planning
- \$0.4 million for debt service and issuance costs

Community development expenditures exceeded the budget due to a FY 2007 Greater Lynchburg Transit Company operating deficit of \$0.2 million. The deficit was the result of higher than anticipated fuel costs and increased maintenance costs for the bus fleet.

City Council appropriated \$1.2 million for a contingency reserve and authorized 3%, or \$0.03 million in expenditures, for public safety, community development, and administration. The remaining 97%, or \$1.17 million, reverted to undesignated fund balance, of which \$0.2 million was carried forward to partially fund the FY 2008 Reserve for Contingencies.

From the original budget of \$149.8 million, City Council approved budget amendments of 5%, or \$6.9 million, resulting in an amended budget of \$156.7 million. The budget amendments were primarily for the following purposes:

- \$0.6 million for prior year unexpended items requested to be re-appropriated in the current year to continue programs;
- \$4.2 million for additional school funding of which \$3.1 million was for Schools' capital projects, \$0.9 million was for the FY 2007 operating budget, and \$0.2 million was for a consolidated City/Schools Information Technology facility; and,
- \$2.1 million for third quarter budget amendment requests. Each fiscal year, management reviews current year expenditures and revenue collection patterns and presents to City Council a third quarter budget amendment. The FY 2007 amendment was comprised primarily of \$0.6 million for the City's share of the Blue Ridge Regional Jail Authority's costs, \$0.3 million for community development, \$0.2 million for public safety expenditures, \$0.2 million for economic development, \$0.1 million for judicial, \$0.1 million for public works, and \$0.6 million for social services programs.

Proprietary Funds

The proprietary funds are comprised of solid waste management, water, sewer, airport, and fleet services. The City accounts for the solid waste management, water, sewer, and airport as enterprise funds and fleet services as an internal service fund. In the budgetary management of the enterprise funds, the City has chosen to budget for principal retirement on long-term debt rather than depreciation. Further, the City uses two key financial indicators, fund balance and debt coverage ratios, found in financial policies adopted by City Council to ensure the enterprise funds' financial stability. At the fund level, debt coverage is defined as the number of times debt service is covered by net income. Net income is calculated as operating income plus depreciation and amortization plus interest income. Fund balance is defined as total cash less unexpended bond proceeds, customer deposits, and resources dedicated to capital projects. The fund balance ratio is determined by comparing this fund balance amount to operating expenses, exclusive of depreciation and inclusive of principal and interest debt service payments for the fiscal year.

Water Fund

The Water Fund's total net assets of \$34.4 million increased 4%, or \$1.2 million, from FY 2006. Net assets invested in capital, net of related debt, of \$27.5 million decreased 1%, or \$0.3 million, and were 80% of total net assets. The College Hill Water Filtration Plant renovations project and water tanks rehabilitation projects continued. Unrestricted net assets available to fund future expenses increased by 28%, or \$1.5 million, due to the result of operations as noted and increased unexpended pay-as-you-go local funds for capital projects of \$1.2 million. Unrestricted net assets were 20%, or \$6.9 million, of total net assets. Operating revenues totaled \$10.4 million, equivalent to FY 2006 as projected with revised FY 2007 revenues analysis. There was a 4% rate increase effective July 1, 2006; however, a 7% reduced consumption for contract customers along with some reduced consumption for non-contract customers resulted in an overall decrease of \$0.2 million in anticipated revenues for FY 2007. Operating expenses totaled \$8.4 million and increased 5%, or \$0.4 million, primarily due to increased personal services and benefits costs. Investment earnings increased \$0.4 million and debt service interest increased \$0.3 million. The fund balance of \$5.2 million resulted in a fund balance ratio of 55%, which compared favorably to City Council's financial policy target of 40%. The debt coverage ratio was 1.55, which compared favorably to City Council's adopted financial policy target of 1.2.

Sewer Fund

The Sewer Fund's total net assets of \$92 million increased 5%, or \$4.6 million, from FY 2006. Net assets invested in capital, net of debt, of \$74.8 million increased 2%, or \$1.2 million, due to completion of Combined Sewer Overflow (CSO) projects and \$7 million of Virginia Revolving Loan (VRL) Program new long-term debt. Net assets invested in capital, net of related debt, were 81% of total net assets. Unrestricted net assets available to fund future expenses increased by 25%, or \$3.4 million, due to the results of operations as noted and increased unexpended pay-as-you go local funds for capital projects of \$3.4 million. Unrestricted net assets were 19%, or \$17.2 million, of total net assets. Operating revenues totaled \$16 million and increased 4%, or \$0.6 million, due to a 4% rate increase effective July 1, 2006. Operating expenses totaled \$10.7 million and increased 2%, or \$0.2 million, primarily due to \$0.2 million each of increased administrative and depreciation costs. Personal services and benefits costs increased by \$0.2 million, while operation and maintenance costs decreased by the same amount. Investment earnings increased \$0.4 million and debt service interest increased \$0.1 million. The fund balance of \$6.8 million resulted in a fund balance ratio of 25%, which met City Council's financial policy target of 25%. The debt coverage ratio was 1.57, which compared favorably to City Council's adopted financial policy target of 1.2 and the CSO Order requirements. Please refer to the Statistical Section of this report for details.

Airport Fund

The Airport Fund's total net assets of \$30.9 million increased 30%, or \$7.2 million, from FY 2006. Net assets invested in capital, net of related debt, of \$29.6 million, increased 36%, or \$8 million, due to the runway extension project. Net assets invested in capital, net of related debt, were 96% of total net assets. Unrestricted net assets available to fund future expenses decreased 28%, or \$0.5 million, due to the use of previously accumulated State entitlement funds for a runway extension project. Unrestricted net assets were 4%, or \$1.3 million, of total net assets. Operating revenues totaled \$2.0 million, an increase of 5%, or \$0.1 million, due primarily to increased Parking and Rental Car Concessions revenues. Operating expenses totaled \$3.5 million, an increase of 3%, or \$0.1 million, mainly due to an increase in non-recurring maintenance expenses. Capital contributions totaled \$7.9 million, an increase of 508%, or \$6.6 million, which represented significant federal contributions towards a runway extension project.

Solid Waste Management Fund

The Solid Waste Management Fund's total net assets of \$15.8 million increased 20%, or \$2.6 million, from FY 2006. Unrestricted net assets available to fund future expenses increased 23%, or \$2.5 million, due to the results of operations as noted. Unrestricted net assets were 84%, or \$13.3 million, of total net assets. Operating revenues totaled \$7.3 million and increased 1%, or \$0.1 million, due to increased revenues from private and industrial contract haulers. Operating expenses totaled \$5.7 million and increased 19%, or \$0.9 million, primarily due to increased landfill closure/post-closure care costs, computer software and fuel purchases, and materials for intermediate landfill cover and road maintenance. Investment earnings increased \$0.4 million and debt service interest decreased \$0.1 million. The fund balance of \$6.9 million resulted in a fund balance ratio of 104%. This ratio compared favorably to City Council's financial policy target of 40%. Additionally, the debt coverage ratio was 3.21, which compared favorably to City Council's adopted financial policy target of 1.2. These favorable policy targets are part of an overall plan for Solid Waste Management to ensure that debt is fully retired when the current landfill reaches maximum capacity; and, provide necessary capital funding to support the Regional Solid Waste Authority scheduled to be operational on July 1, 2008.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets, net of depreciation, were \$506.9 million as reflected in the following schedule. The Schools had \$2.1 million in capital assets exclusive of buildings and facilities, which were capitalized as the City's assets.

Capital Assets
As of June 30, 2007/2006
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change	Component Unit Schools	
	2007	2006	2007	2006	2007	2006	2007-2006	2007	2006
Capital assets, not being depreciated:									
Land	\$ 9.1	\$ 8.8	\$ 5.8	\$ 5.6	\$ 14.9	\$ 14.4	3%	\$ -	\$ -
Construction-in-progress	14.6	12.4	31.5	26.5	46.1	38.9	19%	-	-
Capital assets, being depreciated:									
Land improvements	13.7	9.7	15.6	15.5	29.3	25.2	16%	-	-
Buildings and improvements	181.8	177.3	37.1	35.8	218.9	213.1	3%	-	-
Infrastructure	192.2	189.5	263.2	247.2	455.4	436.7	4%	-	-
Machinery and equipment	32.8	30.8	11.0	11.3	43.8	42.1	4%	6.8	6.6
Less: Accumulated depreciation	(190.7)	(177.7)	(110.8)	(102.9)	(301.5)	(280.6)	7%	(4.7)	(4.6)
Total Capital Assets	\$ 253.5	\$ 250.8	\$ 253.4	\$ 239.0	\$ 506.9	\$ 489.8	3%	\$ 2.1	\$ 2.0

During FY 2007, the City's net increase in capital assets was 3% or \$17.1 million. Major capital asset events included the following (in millions):

Construction-in-progress converted to capital assets:

Completion of several Combined Sewer Overflow (CSO) replacement projects, financed by a combination of VRL Program funds, State and federal CSO grants and general obligation bonds.	\$ 13.6
Completion of upgrades to soccer and football fields and replacement of the tennis court lighting system at E. C. Glass High School, financed by a combination of local pay-as-you-go capital monies and general obligation bonds.	2.3
Completion of upgrades to soccer and football fields at Heritage High School, financed by a combination of local pay-as-you-go capital monies and general obligation bonds.	2.2
Completion of various street, bridge and culvert projects; including improvements to Lynchpin Lane and Wards Road, culvert replacements at Buckingham and Windsor Hills Drive over Dreaming Creek and traffic signal replacements on Langhorne Road, financed by a combination of local pay-as-you-capital monies and general obligation bonds.	2.0
Acquisition of a new Information Technology building, financed by general obligation bonds.	1.8
Completion of a new 12 unit T-Hangar/Jet Pod building at the Lynchburg Regional Airport, financed by a combination of state aviation entitlement funds and general obligations bonds.	0.9
Completion of several projects along the Blackwater Creek Bikeway and James River Heritage Trail system, including a new ramp connecting the bikeway to 8 th and Jefferson Streets, construction of a new pedestrian bridge at the Point of Honor entrance to the bikeway and construction of a new hiking bridge connecting the Blackwater Creek Trail to the Ruskin Freer Trail, financed by a combination of local pay-as-you capital monies, federal grant monies and general obligation bonds.	0.7

Completion of additional renovation work at the Lynchburg City Stadium, financed by a combination of local pay-as-you-go capital monies and general obligation bonds.	0.7
Total construction-in-progress converted to capital assets	24.2
On-going replacement of the vehicle fleet, financed through local operating monies.	1.7
Replacement of three fire trucks, financed through general obligation bonds.	1.1
Total major asset events	27.0

Construction-in-progress at the end of FY 2007 included additional CSO abatement projects, extension of runway 4 at Lynchburg Regional Airport, renovations to the College Hill Water Filtration plant, water tank rehabilitation projects, creation of the Riverfront Depot Plaza and a variety of other building, street, bridge, water, sewer and recreation projects. Additional information on the City's capital assets can be found in Note 8 of this report.

Long-term Debt

Total outstanding debt was \$262.2 million with \$143.7 million of business-type activities debt supported by the individual funds, resulting in net bonded debt for governmental activities of \$118.5 million. Capital leases of \$1.1 million for the regional radio system joint venture and \$5.7 million for the human services facility were included, while liabilities for compensated absences and workers' compensation of \$5.2 million and landfill closure liability of \$3.3 million were excluded.

Long-term Debt Obligations As of June 30, 2007/2006 (in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change
	2007	2006	2007	2006	2007	2006	2007-2006
General Obligation Bonds	\$ 108.6	\$ 116.7	\$ 52.3	\$ 57.5	\$ 160.9	\$ 174.2	-8%
Revenue Bonds	-	-	74.9	70.5	74.9	70.5	6%
Literary Bonds	0.1	0.1	-	-	0.1	0.1	0%
General Obligation Notes	-	-	16.5	16.5	16.5	16.5	0%
Note Payable	3.0	3.2	-	-	3.0	3.2	-6%
Capital Lease	6.8	7.3	-	-	6.8	7.3	-7%
Total	<u>\$ 118.5</u>	<u>\$ 127.3</u>	<u>\$ 143.7</u>	<u>\$ 144.5</u>	<u>\$ 262.2</u>	<u>\$ 271.8</u>	<u>-4%</u>

Total new long-term debt of \$7 million issued for business-type activities from the Virginia Revolving Loan Program (VRL) was for CSO sewer capital projects.

The City retired \$16.6 million of outstanding principal as planned retirements, which included \$8.8 million for governmental activities and \$7.8 million for business-type activities.

The City's general obligation bonds continued to maintain an Aa3 rating from Moody's Investors Service, an AA rating from Standard and Poor's Rating Service, and an AA rating from Fitch Investors dated July 10, 2007 for the City's August 2, 2007 general obligation public improvement bonds Series 2007. Standard and Poor's utilized their Financial Management Assessment (FMA) model, which resulted in a "strong" ranking for the City's management practices, which is the highest ranking offered in this assessment. This "strong" ranking indicates that management practices, particularly related to fiscal and debt policies, are strong, well embedded, and likely sustainable. The City Council adopted Debt Management Policy was amended in December 2006 and limited tax-supported debt not to exceed 4.5% of net assessed valuation of taxable property in the City. As of the end of FY 2007, outstanding tax-supported debt was 2.45% of net assessed valuation. In addition, the City Council adopted Budget Policy was amended in December 2006. It established that pay-as-you-go funding, as a percentage of the City's Five Year Capital Improvement Program, shall not be less than 10%, and it set a goal of 15%. Detailed information on the City's long-term debt is included in Note 9 of this report.

ECONOMIC FACTORS

The City's unemployment rate for June 2007 was 4.3%, which was 0.3% more than the same period in FY 2006. This compares to the State's unemployment rate of 3.2% and the national average rate of 4.7% for June 2007.

The City is a regional commercial center and retail businesses, stores, and restaurants continue to thrive in the Route 29 corridor. The City experienced tax growth in the areas of sales, meals, business licenses, and amusement taxes again in FY 2007. A Fall 2006 college enrollment of 17,415 students is equivalent to 25.3% of the City's estimated 2006 population with significant growth planned by Liberty University for Fall 2007.

Health care facilities expansion continues with Centra Health, Inc., the City's and the region's nonprofit health care center and major employer. A significant \$69 million project includes a 140,000 square foot facility with a new 108-bed tower to be completed in Fall 2007. A regional outpatient cancer center facility of 75,000 square feet and estimated at \$21 million is expected to open Spring 2008.

Economic development initiatives continue to draw new businesses, particularly in the downtown area and industrial parks, which include Enterprise and Technology Zone designations. A number of public-private redevelopment efforts are underway in the downtown business district as well as a new project on the west end of the City that includes both residential and retail use. This project, Cornerstone, follows the Traditional Neighborhood Development design. Construction neared completion on new lodging, dining, and meeting facilities in two restored buildings known as the BluffWalk Center. Upon completion, the complex will include a forty-three room boutique hotel, conference center, casual restaurant, and microbrewery. City Market Lofts is located adjacent to the City's Community Market. The project includes 12,500 square feet of retail/office space in addition to rental lofts. Work began on the Fifth Street Corridor Plan, which provides an important link between the Downtown/Riverfront and Midtown areas of the City.

Design continued on a new Juvenile and Domestic Relations Court building and City Council voted to build a new middle school instead of renovating the current Sandusky Middle School. Both of these buildings will be designed to meet Leadership in Energy and Environmental Design (LEED) Certification specifications.

For FY 2008, the Adopted General Fund Budget included funding of \$1.6 million equal to 3% of payroll with a plan to address performance and market for City employees in accordance with the City's Compensation Philosophy. Additional funding of \$0.5 million was budgeted to address market adjustments for public safety compensation. The Adopted Budget included a reserve of \$0.25 million for Other Post Employment Benefits (OPEB).

The FY 2008 Adopted Budget also included increased funding to the City Schools by 6%, or \$1.8 million, over the previous year. From the Schools \$6.6 million return of FY 2006 fund balance, \$1.5 million was set aside in a reserve for textbooks, \$0.8 million for health care and \$0.1 million for future expenditure needs. Finally, \$0.9 million was re-appropriated to the Schools Operating Fund, \$3.1 million was transferred to the Schools Capital Projects Fund primarily for buildings and athletic fields' improvements projects, and \$0.2 million was allocated to a consolidated City and Schools Information Technology facility.

Due to the impact of the July 1, 2007 real estate reassessment, City Council voted to reduce the Real Estate Tax Rate of \$1.11 by \$0.06 to \$1.05 per \$100 of assessed value as part of the FY 2008 Adopted Budget. The Common Goods Fee estimated at \$1 million was eliminated from the Solid Waste Management Fund's Adopted Budget and will be funded now by the City's tax base (General Fund) in the amount of \$0.8 million. This fee helped fund brush and bulk collection, litter and illegal dumping cleanup and prevention programs, household hazardous waste collection and disposal, and drop-off recycling programs. In addition to the 4% water and sewer volume rates, water and sewer connection fees increased approximately 10% based on meter size; and, the Biological Oxygen Demand (BOD) and Total Suspended Solids surcharges increased by 10% in FY 2008.

For FY 2007, the City's Solid Waste Management, Water, and Sewer Funds met or exceeded City Council's financial policy targets. Adopted financial policies require rate reviews a minimum of every two years for the Solid Waste Management, Water, and Sewer Funds. Typically, rates for the Water and Sewer Funds are reviewed annually with necessary changes implemented at the beginning of each fiscal year. Other than the 4% rate increases for water and sewer services, there were no additional increases in tax rates or fees. Efforts continue towards the initiative to regionalize the solid waste disposal operations with Campbell County, Bedford City and Nelson County. This new regional authority is to be in place July 1, 2008.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial Services, City of Lynchburg, 900 Church Street, Lynchburg, VA, 24504, or via telephone at 434-455-3968. This report, the FY 2007 Operating and Capital Budgets, and FY 2007-2011 Capital Improvement Program are on the City's web site at www.lynchburgva.gov.

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BASIC FINANCIAL STATEMENTS

Statement of Net Assets
June 30, 2007

	Governmental Activities	Business Type Activities	Total Primary Government	Component Units		Total Reporting Unit
				Schools	Other	
Assets						
Cash and cash equivalents	\$ 24,364,141	\$ 10,351,816	\$ 34,715,957	\$ 12,361,116	\$ 571,915	\$ 47,648,988
Investments	27,202,653	24,323,081	51,525,734	-	-	51,525,734
Receivables, net	17,617,466	4,578,712	22,196,178	281,727	595,965	23,073,870
Due from primary government	-	-	-	-	242,582	242,582
Due from other governments	4,148,449	22,622,849	26,771,298	3,334,365	228,307	30,333,970
Internal balances	5,024,873	(5,024,873)	-	-	-	-
Due from component units	2,757,741	-	2,757,741	-	-	2,757,741
Inventory	84,269	372,310	456,579	86,063	170,973	713,615
Prepays and other assets	3,020,213	-	3,020,213	-	14,864	3,035,077
Restricted assets:						
Cash and cash equivalents	2,505,304	7,794,238	10,299,542	509,650	-	10,809,192
Due from other governments	-	4,701,937	4,701,937	-	-	4,701,937
Deferred debt charges	1,597,341	1,300,924	2,898,265	-	-	2,898,265
Capital assets, net of accumulated depreciation:						
Land and improvements	19,852,642	8,929,857	28,782,499	-	55,031	28,837,530
Buildings and improvements	97,576,970	21,516,370	119,093,340	-	376,432	119,469,772
Machinery and equipment	15,258,789	2,769,030	18,027,819	2,144,932	2,230,315	22,403,066
Construction in progress	14,615,876	30,351,343	44,967,219	-	-	44,967,219
Infrastructure	106,240,372	189,837,089	296,077,461	-	-	296,077,461
Total assets	341,867,099	324,424,683	666,291,782	18,717,853	4,486,384	689,496,019
Liabilities						
Accounts payable and other liabilities	11,094,359	4,787,679	15,882,038	10,110,457	803,167	26,795,662
Accrued interest payable	1,281,331	855,908	2,137,239	-	-	2,137,239
Due to primary government	-	-	-	2,612,741	145,000	2,757,741
Due to component unit	242,582	-	242,582	-	-	242,582
Unearned revenue	7,056,994	-	7,056,994	34,240	-	7,091,234
Liabilities payable from restricted assets	147,728	339,155	486,883	-	-	486,883
Noncurrent liabilities						
Due within one year	9,040,891	8,668,794	17,709,685	696,986	-	18,406,671
Due in more than one year	116,327,717	139,803,555	256,131,272	2,195,804	511,947	258,839,023
Total liabilities	145,191,602	154,455,091	299,646,693	15,650,228	1,460,114	316,757,035
Net assets						
Invested in capital assets, net of related debt	139,856,317	134,385,674	274,241,991	454,176	2,661,778	277,357,945
Restricted for:						
Passenger facility charges	-	1,765	1,765	-	-	1,765
Unrestricted	56,819,180	35,582,153	92,401,333	2,613,449	364,492	95,379,274
Total net assets	\$ 196,675,497	\$ 169,969,592	\$ 366,645,089	\$ 3,067,625	\$ 3,026,270	\$ 372,738,984

The Notes to the Financial Statements are
an integral part of this statement.

Statement of Activities
For the Year Ended June 30, 2007

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		Total Reporting Unit
					Governmental Activities	Business-type Activities	Total	Schools	Other	
Primary government:										
Governmental activities:										
General government	\$ 12,148,875	\$ 398,188	\$ 336,688	\$ -	\$ (11,413,999)	\$ -	\$ (11,413,999)	\$ -	\$ -	\$ (11,413,999)
Judicial	5,471,591	730,625	3,248,233	-	(1,492,733)	-	(1,492,733)	-	-	(1,492,733)
Public safety	40,397,195	5,398,675	3,090,352	-	(31,908,168)	-	(31,908,168)	-	-	(31,908,168)
Public works	19,643,233	98,025	9,044,678	325	(10,500,205)	-	(10,500,205)	-	-	(10,500,205)
Health and human services	23,439,351	1,817,260	15,621,823	-	(6,000,268)	-	(6,000,268)	-	-	(6,000,268)
Cultural and recreational	9,432,337	1,888,695	232,013	5,000	(7,306,629)	-	(7,306,629)	-	-	(7,306,629)
Community development	6,759,110	887,401	2,352,132	-	(3,519,577)	-	(3,519,577)	-	-	(3,519,577)
Education	33,539,288	-	-	2,212,094	(31,327,194)	-	(31,327,194)	-	-	(31,327,194)
Interest payments and other fiscal charges	5,444,098	-	-	-	(5,444,098)	-	(5,444,098)	-	-	(5,444,098)
Total governmental activities	156,275,078	11,218,869	33,925,919	2,217,419	(108,912,871)	-	(108,912,871)	-	-	(108,912,871)
Business-type activities:										
Solid Waste Management	6,436,950	7,276,645	201,735	-	-	1,041,430	1,041,430	-	-	1,041,430
Airport	3,545,346	1,848,109	158,615	8,152,304	-	6,613,682	6,613,682	-	-	6,613,682
Water	9,846,038	10,397,780	-	-	-	551,742	551,742	-	-	551,742
Sewer	12,757,627	16,040,587	38,500	766,259	-	4,087,719	4,087,719	-	-	4,087,719
Total business-type activities	32,585,961	35,563,121	398,850	8,918,563	-	12,294,573	12,294,573	-	-	12,294,573
Total primary government	\$ 188,861,039	\$ 46,781,990	\$ 34,324,769	\$ 11,135,982	(108,912,871)	12,294,573	(96,618,298)	-	-	(96,618,298)
Component units:										
Schools	\$ 89,005,585	\$ 2,716,534	\$ 57,768,063	\$ -	-	-	-	(28,520,988)	-	(28,520,988)
Greater Lynchburg Transit Company	6,354,484	951,476	3,900,133	976,325	-	-	-	-	(526,550)	(526,550)
Business Development Centre	397,508	231,002	156,858	-	-	-	-	-	(9,648)	(9,648)
Total component units	\$ 95,757,577	\$ 3,899,012	\$ 61,825,054	\$ 976,325	-	-	-	(28,520,988)	(536,198)	(29,057,186)
General revenues:										
Property taxes					57,241,907	-	57,241,907	-	-	57,241,907
Local sales and use tax					14,481,096	-	14,481,096	-	-	14,481,096
Meals taxes					10,000,796	-	10,000,796	-	-	10,000,796
Consumer utility taxes					5,835,367	-	5,835,367	-	-	5,835,367
Business license taxes					7,922,666	-	7,922,666	-	-	7,922,666
Communications sales and use tax					1,669,968	-	1,669,968	-	-	1,669,968
Other taxes					6,697,407	-	6,697,407	-	-	6,697,407
Unrestricted intergovernmental					9,687,718	-	9,687,718	-	-	9,687,718
Interest					3,082,813	2,382,245	5,465,058	42,566	-	5,507,624
Miscellaneous					1,919,538	92,880	2,012,418	238,700	-	2,251,118
City appropriation					-	-	-	29,060,183	-	29,060,183
Transfers					11,134	(11,134)	-	-	-	-
Total general revenues and transfers					118,550,410	2,463,991	121,014,401	29,341,449	-	150,355,850
Changes in net assets					9,637,539	14,758,564	24,396,103	820,461	(536,198)	24,680,366
Net assets - beginning, as restated (Note 19)					187,037,958	155,211,028	342,248,986	2,247,164	3,562,468	348,058,618
Net assets - ending					\$ 196,675,497	\$ 169,969,592	\$ 366,645,089	\$ 3,067,625	\$ 3,026,270	\$ 372,738,984

The Notes to the Financial Statements are an integral part of this statement.

Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 18,201,702	\$ 4,601,861	\$ 22,803,563
Investments	13,853,034	13,349,619	27,202,653
Receivables, net of allowance			
Taxes excluding penalties	8,153,119	-	8,153,119
Accounts	8,167,436	-	8,167,436
Other	179,640	1,096,296	1,275,936
Due from other funds	1,421,036	1,580,000	3,001,036
Due from component units	1,254,741	1,503,000	2,757,741
Due from other governments	1,711,849	2,436,600	4,148,449
Other assets	-	213	213
Restricted assets:			
Cash and cash equivalents	158,465	1,961,859	2,120,324
Total assets	\$ 53,101,022	\$ 26,529,448	\$ 79,630,470
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 2,014,272	\$ 2,603,396	\$ 4,617,668
Accrued liabilities	6,152,061	39,235	6,191,296
Due to other governments	71,135	1,847	72,982
Due to component unit	242,582	-	242,582
Due to other funds	-	1,116,039	1,116,039
Deposits payable from restricted assets	147,728	-	147,728
Deferred revenue	11,695,888	134,022	11,829,910
Total liabilities	20,323,666	3,894,539	24,218,205
Fund balances:			
Reserved for:			
Encumbrances	1,236,149	4,930,322	6,166,471
Advances	-	500,000	500,000
Unreserved:			
Designated	6,871,100	-	6,871,100
Undesignated	24,670,107	-	24,670,107
Unreserved, reported in special revenue			
Designated	-	336,773	336,773
Undesignated	-	2,882,803	2,882,803
Unreserved, reported in capital projects			
Designated	-	352,062	352,062
Undesignated	-	13,632,949	13,632,949
Total fund balances	32,777,356	22,634,909	55,412,265
Total liabilities and fund balances	\$ 53,101,022	\$ 26,529,448	\$ 79,630,470

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2007**

Amounts reported for governmental activities in the statement of net assets are different because:

Ending fund balance - governmental funds		\$ 55,412,265
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets	253,544,649	
Less: Internal service capital assets	<u>(11,693,565)</u>	
		241,851,084
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
		4,772,916
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds		
		3,020,000
Internal service funds activity that has been allocated to the user departments.		
		3,161,304
Internal service funds are used by management to charge the costs of vehicle maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		
		10,363,163
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
Bonds payable	(109,235,210)	
Accrued interest payable	(1,281,331)	
Capital leases payable	(6,810,398)	
Notes payable	(3,020,000)	
Compensated absences	(3,558,207)	
Workers' compensation	(1,009,758)	
Arbitrage liability	<u>(96,471)</u>	
	(125,011,375)	
Add back: Internal Service bonds payable	3,015,188	
Add back: Internal Service accrued interest payable	50,138	
Add back: Internal Service arbitrage liability	6,175	
Add back: Internal Service compensated absences	<u>34,639</u>	<u>(121,905,235)</u>
Net assets of governmental activities		<u>\$ 196,675,497</u>

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 102,480,268	\$ 496,619	\$ 102,976,887
Regulatory licenses, permits and privilege fees	887,272	-	887,272
Intergovernmental	31,311,980	14,199,592	45,511,572
Fines and forfeitures	581,986	-	581,986
Revenue from use of money and property	3,377,730	1,061,122	4,438,852
Charges for services	7,083,847	3,397,044	10,480,891
Miscellaneous	387,005	1,632,552	2,019,557
Total revenues	146,110,088	20,786,929	166,897,017
Expenditures			
Current operating expenditures			
General government	14,111,441	456,214	14,567,655
Judicial	4,182,946	1,096,509	5,279,455
Public safety	34,640,217	4,138,262	38,778,479
Public works	11,565,845	2,202,396	13,768,241
Health and human services	16,577,034	6,309,085	22,886,119
Cultural and recreational	7,287,216	1,475,397	8,762,613
Community development	4,034,373	2,681,914	6,716,287
Education	30,418,183	189,047	30,607,230
Capital outlay			
Capital general government	-	12,619,947	12,619,947
Debt service			
Principal retirements	7,702,865	725,439	8,428,304
Interest payments and other fiscal charges	4,794,314	319,212	5,113,526
Total expenditures	135,314,434	32,213,422	167,527,856
Excess (deficiency) of revenues over (under) expenditures	10,795,654	(11,426,493)	(630,839)
Other financing sources (uses)			
Transfers in	126,333	14,367,957	14,494,290
Transfers out	(15,241,180)	(1,754,669)	(16,995,849)
Total other financing sources (uses)	(15,114,847)	12,613,288	(2,501,559)
Net changes in fund balances	(4,319,193)	1,186,795	(3,132,398)
Fund balances - beginning, as restated (Note 19)	37,096,549	21,448,114	58,544,663
Fund balances - ending	\$ 32,777,356	\$ 22,634,909	\$ 55,412,265

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2007**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ (3,132,398)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the detail of the two components.

Capital outlay	14,285,864
Depreciation expense	(12,465,104)

The net effect of various miscellaneous transactions involving capital assets (sales, reduction in construction in progress, donated asset) is to decrease net assets.	174,509
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,734,329
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.	8,379,509
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(490,126)
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To eliminate transfers to the internal service fund	2,512,693
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The net loss of certain activities of the internal service fund is reported with governmental activities.	(1,361,737)
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Change in net assets of governmental activities.	\$ 9,637,539
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Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 99,327,733	\$ 101,201,994	\$ 102,480,268	\$ 1,278,274
Regulatory licenses, permits and privilege fees	907,318	931,918	887,272	(44,646)
Intergovernmental	30,653,577	32,102,982	31,311,980	(791,002)
Fines and forfeitures	582,000	570,000	581,986	11,986
Revenue from use of money and property	1,350,504	2,702,080	3,377,730	675,650
Charges for services	7,479,031	7,737,081	7,083,847	(653,234)
Miscellaneous	486,235	407,369	387,005	(20,364)
Total revenues	140,786,398	145,653,424	146,110,088	456,664
Expenditures				
Current operating expenditures				
General government	17,039,278	16,057,818	14,111,441	1,946,377
Judicial	4,035,585	4,182,996	4,182,946	50
Public safety	34,011,623	35,414,777	34,640,217	774,560
Public works	12,066,478	12,097,902	11,565,845	532,057
Health and human services	16,417,519	17,233,366	16,577,034	656,332
Cultural and recreational	7,536,472	7,811,638	7,287,216	524,422
Community development	3,434,420	4,000,937	4,034,373	(33,436)
Education	30,750,413	31,672,924	30,418,183	1,254,741
Debt service				
Principal retirements	8,076,178	8,076,178	7,702,865	373,313
Interest payments and other fiscal charges	4,822,525	4,821,505	4,794,314	27,191
Total expenditures	138,190,491	141,370,041	135,314,434	6,055,607
Excess (deficiency) of revenues over expenditures	2,595,907	4,283,383	10,795,654	6,512,271
Other financing sources (uses)				
Transfers in	300,653	178,079	126,333	(51,746)
Transfers out	(11,638,064)	(15,296,432)	(15,241,180)	55,252
Total other financing sources (uses)	(11,337,411)	(15,118,353)	(15,114,847)	3,506
Net changes in fund balances	(8,741,504)	(10,834,970)	(4,319,193)	6,515,777
Fund balances - beginning, as restated (Note 19)	37,096,549	37,096,549	37,096,549	-
Fund balances - ending	\$ 28,355,045	\$ 26,261,579	\$ 32,777,356	\$ 6,515,777

Statement of Net Assets
Proprietary Funds
June 30, 2007

	Enterprise Funds					Internal Service
	Solid Waste Management	Water	Sewer	Airport	Total	
Assets						
Current assets:						
Cash and cash equivalents	\$ 1,597,440	\$ 3,096,494	\$ 5,129,941	\$ 527,941	\$ 10,351,816	\$ 1,560,578
Investments	14,425,603	3,456,874	6,440,604	-	24,323,081	-
Receivables, net of allowance						
Accounts	883,117	1,422,339	2,101,696	35,560	4,442,712	-
Other	-	37,215	59,060	39,725	136,000	20,975
Due from other governments	-	-	94,401	5,216,423	5,310,824	-
Inventory	-	372,310	-	-	372,310	84,269
Due from members - Regional Sewage Treatment Plant	-	-	386,530	-	386,530	-
Total current assets	16,906,160	8,385,232	14,212,232	5,819,649	45,323,273	1,665,822
Noncurrent assets:						
Due from other governments	-	-	16,925,495	-	16,925,495	-
Due from members - Regional Sewage Treatment Plant	-	-	4,701,937	-	4,701,937	-
Restricted assets:						
Cash and cash equivalents	-	4,704,521	3,010,121	79,596	7,794,238	384,980
Deferred debt charges	206,161	472,084	570,840	51,839	1,300,924	-
Capital assets, net of accumulated depreciation:	6,863,261	52,562,097	162,063,738	31,914,593	253,403,689	11,693,565
Total noncurrent assets	7,069,422	57,738,702	187,272,131	32,046,028	284,126,283	12,078,545
Total assets	23,975,582	66,123,934	201,484,363	37,865,677	329,449,556	13,744,367
Liabilities						
Current liabilities:						
Accounts payable	135,760	605,490	990,096	2,840,400	4,571,746	247,467
Accrued liabilities	27,667	61,442	38,031	14,531	141,671	10,311
Accrued interest payable	61,174	348,777	415,911	30,046	855,908	50,138
Due to other governments	11	77,460	53,408	1,961	132,840	6,190
Due to other funds	62,553	117,534	73,293	1,610,189	1,863,569	21,428
Current portion of general obligation bonds	876,266	1,683,800	2,312,792	275,028	5,147,886	181,144
Current portion of public utility revenue bonds	-	-	2,909,118	-	2,909,118	-
Current portion of landfill post closure liability	553,212	-	-	-	553,212	-
Total current liabilities	1,716,643	2,894,503	6,792,649	4,772,155	16,175,950	516,678
Noncurrent liabilities:						
Deposits payable from restricted assets	-	339,155	-	-	339,155	-
Self insurance claims	2,185	38,893	27,096	-	68,174	-
Compensated absences	75,294	151,093	94,824	42,365	363,576	30,482
General obligation BANS	-	10,000,000	6,500,000	-	16,500,000	-
General obligation bonds	3,649,249	18,257,935	23,971,345	2,186,574	48,065,103	2,834,044
Public utility revenue bonds	-	-	72,075,645	-	72,075,645	-
Landfill closure and post closure liability	2,731,057	-	-	-	2,731,057	-
Total noncurrent liabilities	6,457,785	28,787,076	102,668,910	2,228,939	140,142,710	2,864,526
Total liabilities	8,174,428	31,681,579	109,461,559	7,001,094	156,318,660	3,381,204
Net Assets						
Invested in capital assets, net of related debt	2,543,907	27,457,812	74,801,294	29,582,661	134,385,674	9,063,357
Restricted for:						
Passenger facility charges	-	-	-	1,765	1,765	-
Unrestricted	13,257,247	6,984,543	17,221,510	1,280,157	38,743,457	1,299,806
Total net assets	\$15,801,154	\$ 34,442,355	\$ 92,022,804	\$ 30,864,583	173,130,896	\$10,363,163
Reconciliation with business type activities in the statement of net assets:						
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments					(3,161,304)	
Total net assets of business-type activities					\$169,969,592	

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2007

	Enterprise Funds					
	Solid Waste Management	Water	Sewer	Airport	Total	Internal Services
Operating revenues						
Charges for services and other operating revenues	\$ 7,276,645	\$ 10,397,780	\$ 16,040,587	\$ 1,848,109	\$ 35,563,121	\$ 2,193,254
Intergovernmental	-	-	-	129,582	129,582	-
Total operating revenues	7,276,645	10,397,780	16,040,587	1,977,691	35,692,703	2,193,254
Operating expenses						
Personal services and benefits	1,836,677	3,175,057	2,094,012	867,626	7,973,372	626,061
Operation and maintenance	789,615	1,086,665	1,776,185	751,314	4,403,779	1,577,022
Supplies and materials	915,039	915,748	841,857	96,152	2,768,796	45,613
Administration	809,909	1,329,083	1,863,792	235,657	4,238,441	4,939
Landfill closure and postclosure care	492,408	-	-	-	492,408	-
Other charges	62,399	57,613	34,347	16,004	170,363	23,395
Depreciation	770,892	1,796,958	4,108,561	1,568,656	8,245,067	2,033,651
Total operating expenses	5,676,939	8,361,124	10,718,754	3,535,409	28,292,226	4,310,681
Operating income (loss)	1,599,706	2,036,656	5,321,833	(1,557,718)	7,400,477	(2,117,427)
Nonoperating revenues (expenses)						
Interest income	788,040	629,409	858,384	106,412	2,382,245	45,631
Governmental grants	201,735	-	38,500	29,033	269,268	-
Passenger facility charges	-	-	-	223,331	223,331	-
Miscellaneous	65,594	8,468	6,558	12,260	92,880	135,386
Gain (loss) on disposition of assets	(12,540)	(12,880)	-	117,431	92,011	(56,962)
Interest on long-term debt	(238,168)	(1,382,240)	(1,901,244)	(103,910)	(3,625,562)	(128,549)
Total nonoperating revenues (expenses)	804,661	(757,243)	(997,802)	384,557	(565,827)	(4,494)
Income (loss) before contributions and transfers	2,404,367	1,279,413	4,324,031	(1,173,161)	6,834,650	(2,121,921)
Capital contributions	-	-	766,259	7,928,973	8,695,232	-
Transfers in	732,529	-	-	367,337	1,099,866	2,512,693
Transfers out	(582,000)	(77,000)	(452,000)	-	(1,111,000)	-
Change in net assets	2,554,896	1,202,413	4,638,290	7,123,149	15,518,748	390,772
Total net assets - beginning	13,246,258	33,239,942	87,384,514	23,741,434	157,612,148	9,972,391
Total net assets - ending	\$ 15,801,154	\$ 34,442,355	\$ 92,022,804	\$ 30,864,583	\$ 173,130,896	\$ 10,363,163
Reconciliation with business type activities in the statement of activities:						
Change in net assets - enterprise funds reports in this statement					15,518,748	
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments					(760,184)	
Change in net assets of business-type activities:					\$ 14,758,564	

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007

	Enterprise Funds					
	Solid Waste Management	Water	Sewer	Airport	Total	Internal Service
Operating activities						
Cash received from operations	\$ 7,274,744	\$ 10,140,258	\$ 15,732,161	\$ 1,972,392	\$ 35,119,555	\$ 2,193,254
Cash paid to employees	(1,847,556)	(3,101,013)	(2,039,190)	(858,244)	(7,846,003)	(616,777)
Cash paid to suppliers	(2,532,120)	(3,386,608)	(4,829,375)	(1,189,864)	(11,937,967)	(1,631,770)
Net cash provided from (used in) operating activities	2,895,068	3,652,637	8,863,596	(75,716)	15,335,585	(55,293)
Noncapital financing activities						
Transfers in	732,529	-	-	367,337	1,099,866	2,512,693
Transfers out	(582,000)	(77,000)	(452,000)	-	(1,111,000)	-
Net cash provided from (used in) noncapital financing activities	150,529	(77,000)	(452,000)	367,337	(11,134)	2,512,693
Capital and related financing activities						
Payment of long-term debt:						
General obligation bonds	(864,266)	(1,679,841)	(2,386,637)	(306,408)	(5,237,152)	(183,992)
Revenue bonds	-	-	(2,557,922)	-	(2,557,922)	-
Drawdowns of public utility revenue bonds - revolving loan funds	-	-	6,100,667	-	6,100,667	-
Payment of interest on long-term debt	(246,648)	(1,299,719)	(1,431,082)	(99,276)	(3,076,725)	(108,551)
Increase in due to other funds	-	-	-	1,580,000	1,580,000	-
Capital contributions received	-	-	840,153	2,856,432	3,696,585	-
Intergovernmental grants	201,735	-	38,500	-	240,235	-
Passenger facility charges collected	-	-	-	223,331	223,331	-
Proceeds from sale of capital assets	-	-	-	271,685	271,685	78,939
Additions to capital assets	(19,556)	(3,972,816)	(9,411,726)	(6,820,337)	(20,224,435)	(2,892,525)
Proceeds from (payments to) other organizations	65,594	(22,398)	38,677	14,060	95,933	144,469
Net cash used in capital and related financing activities	(863,141)	(6,974,774)	(8,769,370)	(2,280,513)	(18,887,798)	(2,961,660)
Investing activities						
Net purchase of investments	(4,005,291)	(1,163,372)	(4,459,507)	-	(9,628,170)	-
Interest income received	788,040	629,409	858,384	106,412	2,382,245	45,631
Net cash provided from investing activities	(3,217,251)	(533,963)	(3,601,123)	106,412	(7,245,925)	45,631
Net decrease in cash and cash equivalents	(1,034,795)	(3,933,100)	(3,958,897)	(1,882,480)	(10,809,272)	(458,629)
Cash and cash equivalents						
Beginning	2,632,235	11,734,115	12,098,959	2,490,017	28,955,326	2,404,187
Ending	<u>\$ 1,597,440</u>	<u>\$ 7,801,015</u>	<u>\$ 8,140,062</u>	<u>\$ 607,537</u>	<u>\$ 18,146,054</u>	<u>\$ 1,945,558</u>
Reconciliation to Statement of Net Assets						
Current Assets	\$ 1,597,440	\$ 3,096,494	\$ 5,129,941	\$ 527,941	\$ 10,351,816	\$ 1,560,578
Restricted Assets	-	4,704,521	3,010,121	79,596	7,794,238	384,980
	<u>\$ 1,597,440</u>	<u>\$ 7,801,015</u>	<u>\$ 8,140,062</u>	<u>\$ 607,537</u>	<u>\$ 18,146,054</u>	<u>\$ 1,945,558</u>

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007

	Enterprise Funds					Internal Service
	Solid Waste Management	Water	Sewer	Airport	Total	
Reconciliation of operating income (loss) to net cash provided from (used in) operating activities						
Operating income (loss)	\$ 1,599,706	\$ 2,036,656	\$ 5,321,833	\$ (1,557,718)	\$ 7,400,477	\$ (2,117,427)
Adjustments to reconcile operating income (loss) to net cash provided from (used in) operating activities:						
Depreciation	770,892	1,796,958	4,108,561	1,568,656	8,245,067	2,033,651
Amortization of debt related items	23,921	29,454	46,930	3,886	104,191	(1,732)
Landfill closure and postclosure cost	492,408	-	-	-	492,408	-
Changes in assets and liabilities:						
Increase in accounts receivable	(1,901)	(257,522)	(308,426)	(5,299)	(573,148)	-
Increase in inventory	-	(7,310)	-	-	(7,310)	(9,573)
Increase (decrease) in trade accounts payable	20,921	(101,124)	(360,124)	(94,623)	(534,950)	26,271
Increase (decrease) in accrued expenses	(20,022)	38,903	33,538	1,146	53,565	5,886
Increase in due to other funds	9,143	35,141	21,284	8,236	73,804	3,398
Increase in due to other governments	-	63,713	-	-	63,713	4,233
Increase in deposits payable	-	17,768	-	-	17,768	-
Net cash provided from (used in) operating activities	<u>\$ 2,895,068</u>	<u>\$ 3,652,637</u>	<u>\$ 8,863,596</u>	<u>\$ (75,716)</u>	<u>\$ 15,335,585</u>	<u>\$ (55,293)</u>
Supplemental cash flow information						
Non-cash transactions						
Capitalized interest	\$ -	\$ -	\$ -	\$ 1,027	\$ 1,027	\$ -
Capital asset additions financed by retainage payable	-	74,554	208,356	107,416	390,326	-
Capital asset additions financed by accounts payable	-	-	-	2,675,973	2,675,973	-
Undrawn public utility revenue bond proceeds	-	-	16,925,495	-	16,925,495	-

CITY OF LYNCHBURG, VIRGINIA**EXHIBIT 11****Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2007**

Assets	
Cash and cash equivalents	\$ 397,472
Receivables, net of allowance	
Other	<u>12,428</u>
Total assets	<u><u>\$ 409,900</u></u>
Liabilities	
Accounts payable	\$ 4,828
Amounts held for others	<u>405,072</u>
Total liabilities	<u><u>\$ 409,900</u></u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Lynchburg, Virginia (the "City") was founded by John Lynch in 1757, chartered as a town in 1786 and incorporated as a town on January 10, 1805 and received independent City status in 1852. The City operates on a Council-Manager form of Government and provides all municipal services to its residents. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Discretely Presented Component Units: The component units' columns in the combined financial statements include the data of the City's three component units. They are reported in separate columns to emphasize that they are legally separate from the City. The governing bodies of these component units are appointed by City Council.

- Lynchburg City Schools: The Lynchburg City Schools (the "Schools") operates one pre-school, twelve elementary (including one used for special education), three middle schools and two high schools in the City. The Schools are fiscally dependent on the City because the Schools' operational and capital budgets are funded approximately 42% by the City. In addition, the Schools are prohibited from issuing bonded debt without approval of City Council.
- Business Development Centre, Inc.: The Business Development Centre, Inc. (the "Centre") provides business advisory services to small businesses in the Central Virginia area, operates a business incubator, and provides financing for qualifying businesses under certain federal programs. The City provides financial support to the Centre by leasing to the Centre, at a nominal amount, the facility which houses the Centre's operations. As part of the operating with the Centre, the City agrees to advance operating funds to the Centre to cover working capital needs. The City has agreed to provide local matching funds under the revolving loan fund program.
- Greater Lynchburg Transit Company: The Greater Lynchburg Transit Company ("GLTC") was created in 1974 to serve the greater Lynchburg area with public bus and paratransit transportation. GLTC is organized as a not-for-profit stock corporation with the City of Lynchburg as the sole stockholder. The capital for the purchase of the Company's assets has been provided by federal, state, and local grants, and GLTC is dependent on various operating grants to subsidize operations. The City provides financial support to GLTC through the assumption of the obligation to finance GLTC's deficits and through annual appropriations for the GLTC operating budget.

Complete financial statements of the individual component units can be obtained directly from their administrative offices at the addresses listed below. The Lynchburg City Schools financial statements are not separately prepared, but are included in this financial report.

Business Development Centre, Inc.
147 Mill Ridge Road
Lynchburg, Virginia 24502

Greater Lynchburg Transit Company
Post Office Box 797
Lynchburg, Virginia 24505-0797

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Jointly Governed Organizations: The following entities are excluded from the accompanying financial statements:

Blue Ridge Regional Jail Authority: The Blue Ridge Regional Jail Authority (the “Authority”) was created by certain Member Jurisdictions for the purpose of developing and operating a regional jail system to be established by acquiring, renovating and expanding certain existing jail facilities and constructing additional jail facilities. The Member Jurisdictions are the Cities of Lynchburg and Bedford and the Counties of Halifax, Bedford, and Campbell. The Authority began operating the existing jail facilities in the Member Jurisdiction on July 1, 1998.

The City sold its existing jail facilities to the Authority during FY 1997. A new central jail facility was constructed in Lynchburg and opened in FY 2000. It is owned and operated by the Authority. Each Member Jurisdiction pays a per diem charge for each day that one of its prisoners is at any Regional Jail Facility. In accordance with the Service Agreement, the Authority has divided the per diem charge into an operating component and a debt service component. The per diem charge is based on an agreed upon number of prisoner days, and is subject to an adjustment at the end of each fiscal year. During FY 2007, the City paid \$3,899,210 to the Authority.

Central Virginia Community Services Board: The City, in conjunction with the counties of Amherst, Appomattox, Bedford and Campbell and the City of Bedford participate in the Central Virginia Community Services Board (“CVCSB”), which is composed of two members from each of the participating localities. The City appropriated \$458,783 for an operating contribution to the CVCSB for FY 2007.

Regional Commission 2000: The City serves as the Local Workforce Investment Area grant recipient on behalf of the Regional Commission 2000/Central Virginia Local Workforce Investment Area VII. According to the requirements, grant funds are used to provide employment and training activities for adults and dislocated workers and to provide services for eligible youth. During FY 2007, the Regional Commission 2000 received \$1,104,114 in grant funds.

Joint Venture: The City participates in an intergovernmental agreement with the Counties of Amherst and Bedford and the City of Bedford for the operation of a regional radio communication system. The Central Virginia Regional Radio Communications Board is responsible for overseeing the management, operation and administration of the system. The project was financed originally by lease revenue bonds of the Industrial Development Authority of Amherst County and the City of Bedford (in the amount of \$9,931,000 with interest at 5.72%), and the leasing of the project to the participating jurisdictions. On August 1, 2004, this lease revenue bond was refinanced with a \$5,075,000 lease revenue note at 3.30% and a July 2011 maturity. Each participating jurisdiction maintains a leasehold interest in the project and shares costs of operation and maintenance equal to the jurisdiction’s payment percentage as defined in the agreement. The City’s participating interest is 33.10%. Future minimum lease payments in the amount of \$1,120,227 are included in the governmental activities noncurrent liabilities. An asset in the amount of \$1,395,475 is shown in the governmental activities capital assets, net of accumulated depreciation. Separate financial statements of this joint venture are not available.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Related Organizations: The following entities are excluded from the accompanying financial statements:

Lynchburg Redevelopment and Housing Authority: Under the *Code of Virginia* (“Code”), the Commonwealth of Virginia (“Commonwealth”) created in each city and county a redevelopment and housing authority which is a separate political subdivision of the Commonwealth. In April 1956, City Council activated the Lynchburg Redevelopment and Housing Authority (the “LRHA”) which owns and operates federal and state-assisted housing projects for low-income families and administers urban development projects. Commissioners of the LRHA are appointed by City Council; however, City Council is not financially accountable for LRHA. During FY 2007, the City appropriated \$438,324 to the LRHA from the Community Development Block Grant Fund.

Industrial Development Authority of the City of Lynchburg: Under the *Code*, City Council passed an ordinance on March 14, 1967, which created the Industrial Development Authority of the City of Lynchburg (the “IDA”). The IDA was established to promote industry and develop trade within the City. The IDA is governed by a board of seven directors appointed by City Council; however, City Council is not financially accountable for the IDA.

Other Boards and Commissions: City Council appoints certain members of various boards and commissions’ governing bodies as provided under state and local laws and ordinances. The boards and commissions are advisory in nature and City Council is not financially accountable for these organizations.

B. Basis of Presentation

The accompanying financial statements present the government and its component units legally separate entities for which the City is financially accountable. As permitted in Section P80 of GASB’s Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply to its enterprise funds Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Government-wide Statements: The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental and business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements: The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled. The various fund categories and fund types presented in the financial statements are described below:

Governmental Fund Types:

General Fund: The General Fund is the primary operating fund of the City. It accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds: Special Revenue Funds account for the proceeds of specific revenue, other than major capital projects, that are legally restricted to expenditures for specified purposes. These funds consist of the City Federal/State Aid Projects, Community Development Block Grant, Lynchburg Business Development Centre, Museum System, Law Library, Forfeited Assets, E-911, Comprehensive Services Act, Lynchburg Expressway Appearance, Home Investment Trust, Detention Home, Technology Services, and Baseball Stadium.

Capital Projects Funds: Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. These funds consist of the City Capital Projects Fund, and School Capital Projects Fund.

Proprietary Fund Types:

Enterprise Funds: Enterprise Funds account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. These funds consist of the Water, Sewer, Solid Waste Management, and Airport Funds.

The total enterprise funds columns in the proprietary fund statement of net assets and activities are essentially equal to the business-type activity column in the government wide statements, with the exception of the impact of allocating internal service fund activity.

Internal Service Funds: Internal Service Funds account for the financing of goods and services supplied to other funds of the City on a cost-reimbursement basis. A Fleet Management Fund has been established to account for the operation and maintenance of City vehicles.

Fiduciary Fund Types:

Agency Funds: Agency Funds account for assets held by the City as an agent or custodian for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. These funds consist of the Special Welfare and Central Virginia Regional Radio Board Funds.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both “measurable” and “available.” Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 45 days of the end of the current fiscal period for most revenues. Reimbursement basis grants are recognized as revenue when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenues, consisting principally of categorical aid from federal and state agencies, are recognized when earned or at the time of the specific expenditure. Sales and public utility taxes, which are collected by the Commonwealth of Virginia and public utilities, respectively, and subsequently remitted to the City, are recognized as revenues and receivables when measurable and available.

Expenditures in governmental funds are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exceptions to this general rule are principal and interest on general long-term debt, which are recognized when due.

Proprietary fund types utilize the accrual basis of accounting. Revenues are recognized when earned, including unbilled utility receivables and expenses are recognized when incurred. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise fund and of the City’s internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds are unlike all other fund types, reporting only assets and liabilities; therefore, agency funds do not have a measurement focus. The agency fund utilizes the accrual basis of accounting to recognize receivables and payables.

The City reports one major governmental fund, the *General Fund*.

The City reports the following major proprietary funds: The *Water Fund*, *Sewer Fund*, *Airport Fund* and *Solid Waste Management Fund*.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

All governmental and proprietary funds have legally adopted budgets. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) On or before April 15, the City Manager submits to City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budgets include proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an appropriations resolution.
- 4) The City Manager is authorized to transfer budget amounts between departments in accordance with the Adopted Budget Ordinance within any fund; however, any revisions that alter the total budget amounts and/or appropriations of any fund must be approved by City Council. City Council approved additional appropriations of \$3,179,550 during the fiscal year ended June 30 primarily for local match for various grants, human services programs, and additional operating expenditures. It also includes a carryforward of unexpended prior year appropriations for continuing programs. The Superintendent of the Schools is authorized to transfer budget amounts within departments; however, any revisions that alter total budget amounts of any department must be approved by the School Board.
- 5) Formal budgetary integration is employed as a management control device during the year for all funds.
- 6) Budgets for the General Fund and the Capital Projects Funds are prepared in accordance with management's and the City Attorney's interpretation of the City Charter, which is principally the modified accrual basis of accounting. Encumbrances are treated as a reservation of fund equity and reappropriated in the next fiscal year. Further, certain revenues, expenditures, and transfers related to internal service type functions are included for budget purposes. The budget for the Lynchburg City Schools (School Operating Fund) is prepared on modified accrual basis of accounting.
- 7) All General Fund appropriations which are not encumbered lapse at year end.
- 8) Project budgets are utilized in the Capital Projects Funds. Appropriations for the Capital Projects Funds are continued until completion of applicable projects, even when projects extend for more than one fiscal year, or until repealed. New capital projects and additional appropriations for ongoing projects are included in the capital adopted budget commencing on July 1, concurrent with the operating budget process described above.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Net Assets

- **Cash and Cash Equivalents**

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

- **Investments**

Investments for the government as well as for its component units are reported at fair value. Interest earned by certain funds of the Schools and City Capital Projects Fund are allocated to the General Fund. All other interest is allocated to the fund which owns the underlying investments.

- **Receivables**

The City calculates its allowance for uncollectible accounts using historical collection data, and specific account analysis. Receivables are presented net of allowance for doubtful accounts. The allowance is composed of the following:

General Fund, property taxes and other receivables	\$	1,183,397
General Fund, ambulance receivables	\$	787,102
Enterprise Funds	\$	176,964

- **Inventory**

Inventory in the Water Fund is valued at cost using the first-in, first-out (FIFO) method. This inventory consists principally of spare parts held for consumption. The cost is recorded as an expense at the time individual inventory items are withdrawn for use.

- **Capital Assets**

Governmental funds: Capital outlays are recorded as expenditures on the fund basis and as assets on the government-wide financial statements to the extent the City's capitalization threshold of \$5,000 is met. Infrastructure has been capitalized retroactively to 1980. All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their fair market value on the date donated. Schools' buildings and other facilities are capital assets for the City government and not for the component unit.

Works of art, historical treasures, and similar assets have not been capitalized because of the following factors. The works of art at the City are held for public exhibition, education, or research in furtherance of public service, rather than financial gain. The collection is protected, kept unencumbered, cared for, and preserved. The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Proprietary Funds: Capital outlays of the proprietary funds are recorded as capital assets on both the fund basis and the government-wide basis. Capital assets are stated at cost or estimated original cost based on independent consultant studies, net of accumulated depreciation. Donated capital assets are recorded at their fair value at the date of receipt. Repairs and maintenance are charged to expense when incurred. When capital assets are sold or retired, the cost of the assets and the related accumulated depreciation are eliminated and a gain or loss is recognized.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Net Assets (Continued)

- **Capital Assets (Continued)**

The City follows the policy of capitalizing, during the period of construction, the net interest costs on funds borrowed to finance the construction of enterprise funds' capital assets. During 2007, the enterprise funds incurred interest costs of \$3,626,589 of which \$1,027 was capitalized.

The City depreciates capital assets using the straight-line method over their estimated useful lives as follows:

	<u>Years</u>
Land improvements	15-20
Buildings and improvements:	
New construction	30-40
Improvements	15-20
Infrastructure	30-50
Machinery and equipment	5-10

- **Deferred Revenue**

Deferred revenue consists primarily of property taxes and other receivables not collected within 45 days of year-end and property taxes levied to fund future years.

- **Compensated Absences**

City employees accumulate vacation time depending upon their length of service up to a total of 288 hours. All outstanding vacation time is payable upon termination of employment. The current portions are recorded as liabilities in the governmental fund financial statements when they have matured as a result of employee resignations and retirements. In proprietary funds, both the expenses and the liabilities are recorded as benefits as earned. All vacation pay is accrued when incurred in the government-wide financial statements. Each operating fund is responsible for covering its share of vacation pay liability.

- **Arbitrage Rebate Liability**

The U.S. Treasury has issued regulations on calculating the rebate due the Federal government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage profits arise when the City temporarily invests the proceeds of tax exempt debt in securities with higher yields. The City treats the estimated rebate payable as a reduction of available financial resources in the fund that earned the arbitrage profit. Accordingly, interest earnings are reduced by the amount of the increase in the estimated rebate payable and a liability is reported in the appropriate fund.

- **Interfund Transactions**

The City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, or satisfy certain obligations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transfers and other charges between the enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Subsidies between funds are recorded as transfers.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Net Assets (Continued)

• Net Assets/Fund Equity

Net Assets in government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the fund financial statements, City funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

F. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and reported revenues, expenditures and expenses. Actual results could differ.

Note 2. Cash and Investments

Deposits:

All City and School Board cash is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 *et. Seq.* of the *Code*, or covered by federal depository insurance.

Investments:

Investment Policy:

In accordance with the *Code* and other applicable law, including regulations, the City's Investment Policy (Policy) permits investments in Treasury Securities, agency securities, prime quality commercial paper, certificates of deposit maturing within one year and issued by domestic banks, banker's acceptances, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements, open-end investments, the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Pursuant to Sec. 2.1-234.7 of the *Code*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The Investment Policy specifies that no investment may have a maturity greater than one year from the date of purchase, unless matched to a specific cash flow.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 2. Cash and Investments (Continued)

Credit Risk:

As required by state statute or by the City, the Policy requires that commercial paper have a short-term debt rating of P-1 or higher by Moody's Investor Service and A-1 or higher by Standard & Poor's, provided that the issuing domestic corporation has a net worth of \$50 million and its long term debt is rated A or better by Moody's and Standard and Poor's. Banker's acceptances and Certificates of Deposit maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Open-end investment funds must be registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein. Commonwealth of Virginia and Virginia Local Government Obligations secured by debt service reserve funds not subject to annual appropriation must be rated AA or higher by Moody's or Standard & Poor's. Repurchase agreements require that the counterparty be rated A or better by Moody's and Standard & Poor's.

As of June 30, 51% of the portfolio was invested in "AAA" rated obligations, 5% was invested in "AA" rated securities, 8% was invested in "A" rated short-term notes and 35% was invested in an "AAAm" rated LGIP fund. Of the portion of the portfolio rated "AAA", 11% was invested in obligations guaranteed by the U.S. Government. All credit ratings presented in this paragraph are Standard & Poor's ratings.

Concentration of Credit Risk:

The Policy's intent is for the City to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity. The Policy places a limit on the amount the City may invest in any single financial institution at no more than 50% of the City's total investments.

As of June 30, investment types that exceed 5% of the portfolio are shown in the table below under Interest Rate Risk.

Interest Rate Risk:

The Policy limits certain investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Agency securities must mature within five years of the date of purchase. Prime commercial paper must mature within 270 days of the date of purchase and banker's acceptances must mature within 180 days of the date of purchase.

As of June 30, the carrying values and weighted average maturity were as follows:

Investment Type	Fair Value	Weighted Average Maturity*	% of Portfolio
Money Market Funds – LGIP	\$ 36,489,224	-	35%
Repurchase Agreements	6,517,000	1	6
Commercial Paper	15,596,082	51	15
U.S. Treasury Bills	9,089,721	90	9
U.S. Treasury Notes	2,222,572	46	3
Federal Home Loan Mortgage Corporation	10,524,807	128	10
Federal National Mortgage Association	8,353,306	152	8
Federal Farm Credit Bank	6,346,680	61	6
Federal Home Loan Bank	8,250,262	143	8
Total investments	<u>\$ 103,389,654</u>		<u>100%</u>
Portfolio weighted average maturity		57	

* Weighted average maturity in days.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 2. Cash and Investments (Continued)

Custodial Credit Risk:

The Policy requires that all investment securities shall be held in the safekeeping by a third party and evidenced by safekeeping receipts. As required by the *Code*, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30, all investments are held in a bank’s trust department in the City’s name.

Restricted cash and temporary cash investments of the General and Enterprise Funds include certain deposits, unexpended bond proceeds and amounts related to the Passenger Facility Charge Program at the Airport.

The above items are reflected in the statements as follows:

	Primary Government	School Board Component Unit
Deposits and investments:		
Cash on hand	\$ 22,070	\$ 500
Deposits	4,454,558	2,053,783
Investments	92,462,077	10,927,577
	<u>\$ 96,938,705</u>	<u>\$ 12,981,860</u>
Statement of net assets:		
Cash and cash equivalents	\$ 34,715,957	\$ 12,361,116
Investments	51,525,734	-
Restricted cash and cash equivalents	10,299,542	509,650
Fiduciary fund cash and cash equivalents	397,472	111,094
	<u>\$ 96,938,705</u>	<u>\$ 12,981,860</u>

Note 3. Property Taxes

Real Estate taxes are levied on a fiscal year basis on July 1, the assessment date, and become a lien as of that date. Supplemental billings are processed through the current tax year to ensure timely recordation. Real estate taxes are payable in four quarterly installments on November 15, January 15, March 15, and May 15.

Personal property taxes are payable in two equal installments on June 5 and December 5. Additional billings for personal property acquisitions are due March 5 and September 5.

A penalty of 10% for late payment is assessed on the day after the due date and interest at the rate of 10% is assessed on unpaid balances beginning with the first day of the month following the due date. The City bills and collects its own property taxes.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 4. Interfund Receivables, Payables and Transfers

Interfund balances at June 30 were as follows:

	Interfund Receivables	Interfund Payables
Major Fund:		
General	\$ 1,421,036	\$ -
Nonmajor Funds – Special Revenue:		
City Federal/State Aid Projects	-	62,349
Community Development Block Grant	-	255,540
Lynchburg Business Development Centre	-	20,000
Forfeited Assets	-	235
Comprehensive Services Act	-	456,043
Home Investment Trust	-	105,792
Detention Home	-	91,389
Nonmajor Funds – Capital Projects:		
City Capital Project	1,580,000	124,691
Major Proprietary Funds:		
Solid Waste Management	-	62,553
Water	-	117,534
Sewer	-	73,293
Airport	-	1,610,189
Internal Service	-	21,428
	<u>\$ 3,001,036</u>	<u>\$ 3,001,036</u>

Interfund receivables for governmental funds primarily represent advances to special revenue funds and proprietary funds to be repaid with future grant revenues.

Interfund transfers were as follows:

	To	From
Major Fund:		
General	\$ 126,333	\$ 15,241,180
Nonmajor Funds – Special Revenue:		
City Federal/State Aid Projects	342,463	51,528
Museum System	-	6,648
Law Library	-	26,150
Forfeited Assets	-	1,893
E-911	-	1,079
Technology Services	909,643	-
Baseball Stadium	152,350	626,443

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2007

Note 4. Interfund Receivables, Payables and Transfers (Continued)

	To	From
Nonmajor Funds – Capital Projects		
City Capital Projects	\$ 8,822,595	\$ 1,040,928
School Capital Projects	4,140,906	-
Major proprietary funds:		
Solid Waste Management	732,529	582,000
Water	-	77,000
Sewer	-	452,000
Airport	367,337	-
Internal Service	2,512,693	-
	<u>\$ 18,106,849</u>	<u>\$ 18,106,849</u>

Transfers between major funds (general and proprietary) and other nonmajor governmental funds were primarily to support capital projects, operations and the purchase of fleet vehicles and equipment.

Note 5. Due From/To Primary Government and Component Units

Due from/to balances between the City and its component units at June 30 were as follows:

	Due From	Due To
Primary Government:		
Major Funds:		
General	\$ 1,254,741	\$ 242,582
Nonmajor Funds - Special Revenue:		
Lynchburg Business Development Centre Fund	145,000	-
Nonmajor Funds - Capital Projects:		
School Capital Projects	1,358,000	-
	<u>\$ 2,757,741</u>	<u>\$ 242,582</u>
Component Units:		
Lynchburg City Schools	\$ -	\$ 2,612,741
Business Development Centre, Inc.	-	145,000
Greater Lynchburg Transit Company	242,582	-
	<u>\$ 242,582</u>	<u>\$ 2,757,741</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 6. Due From Other Governments

Amounts due from other governments at June 30 were as follows:

	Primary Government		Component Units	
	Governmental Activities	Business-type Activities	Schools	Others
Various federal and state grants	\$ 4,148,449	\$ 5,310,824	\$ 3,334,365	\$ 228,307
Virginia Revolving Loan	-	16,925,495	-	-
Members of Regional Sewage Treatment Plant	-	5,088,467	-	-
	<u>\$ 4,148,449</u>	<u>\$ 27,324,786</u>	<u>\$ 3,334,365</u>	<u>\$ 228,307</u>

Due from members of the Regional Sewage Treatment Plant:

Amounts due from members of the Regional Sewage Treatment Plant represent amounts due from Amherst County, the Bedford County Public Service Authority and the Campbell County Utilities and Service Authority for their proportionate share (20%) of improvements to Joint-Use Facilities under a 1974 agreement (the "Agreement"). These Joint-Use Facilities are defined as the City's Regional Waste Water Treatment Plant and its immediately related treatment facilities used jointly by the City and one or more of the members in connection with the transmission or treatment of wastes made the subject of the Agreement. The cost of improvements are billed to each member and recorded as contributed capital when related projects are completed. Pursuant to Section VI (b) of the Agreement, each County shall have the option of paying its proportionate share of the cost of projects either in cash or on a deferred payment schedule coinciding with the period over which the City's bonds are amortized, plus interest at the rate equivalent to the net interest cost to the City. The members have elected to pay their share of improvements coinciding with the City's. Future payments to be received are as follows:

Amount receivable within 1 year	\$ 386,530
Amount receivable 1 to 5 years	1,947,410
Amount receivable beyond 5 years	<u>2,754,527</u>
	<u>\$ 5,088,467</u>

Note 7. Receivables

Receivables as of June 30, net of allowances for uncollectible accounts are as follows:

	Property Taxes	Accounts	Other	Total
Major funds:				
General	\$ 8,153,119	\$ 8,167,436	\$ 179,640	\$ 16,500,195
Solid Waste Management	-	883,117	-	883,117
Water	-	1,422,339	37,215	1,459,554
Sewer	-	2,101,696	59,060	2,160,756
Airport	-	35,560	39,725	75,285
Internal Service	-	-	20,975	20,975
Nonmajor Governmental Funds	-	-	1,096,296	1,096,296
	<u>\$ 8,153,119</u>	<u>\$ 12,610,148</u>	<u>\$ 1,432,911</u>	<u>\$ 22,196,178</u>

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 8. Capital Assets

Primary Government:

A summary of the changes in the City's capital assets for governmental activities is as follows:

Governmental Activities	Beginning Balances	Transfers and Additions	Transfers and Retirements	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 8,785,207	\$ 326,261	\$ 18,450	\$ 9,093,018
Construction in progress	12,375,203	13,517,165	11,276,492	14,615,876
Total capital assets, not being depreciated	21,160,410	13,843,426	11,294,942	23,708,894
Capital assets, being depreciated:				
Land improvements	9,742,489	3,944,315	200	13,686,604
Buildings and improvements	177,343,255	4,504,631	46,127	181,801,759
Infrastructure	189,465,326	2,776,914	-	192,242,240
Machinery and equipment	30,822,891	3,629,180	1,626,655	32,825,416
Total capital assets, being depreciated	407,373,961	14,855,040	1,672,982	420,556,019
Less – accumulated depreciation for:				
Land improvements	2,388,312	538,868	200	2,926,980
Buildings and improvements	78,974,105	5,273,647	22,963	84,224,789
Infrastructure	80,583,252	5,418,616	-	86,001,868
Machinery and equipment	15,762,307	3,267,624	1,463,304	17,566,627
Total accumulated depreciation	177,707,976	14,498,755	1,486,467	190,720,264
Total capital assets, being depreciated	229,665,985	356,285	186,515	229,835,755
Governmental activities capital assets, net	\$ 250,826,395	\$ 14,199,711	\$ 11,481,457	\$ 253,544,649

Included above is property with a cost and net book value of \$9,590,304 and \$7,152,142, respectively, at June 30 financed by capital leases.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 8. Capital Assets (Continued)

Primary Government: (Continued)

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 646,094
Education	3,208,162
Judicial	187,986
Health and human services	443,039
Public Safety	1,791,281
Public Works	6,835,542
Community development	22,099
Cultural and recreational	644,972
	<hr/>
Total governmental activities	13,779,175
	<hr/>
Business-type activities:	
Solid waste Management	478,837
Water	85,447
Sewer	132,364
Airport	22,932
	<hr/>
Total business-type activities	719,580
	<hr/>
Total depreciation	\$ 14,498,755

The Fleet Internal Services Fund, whose assets are reported as a part of the City's governmental assets, purchases vehicles that are used by the City's Enterprise Funds. Depreciation related to those vehicles is allocated to the Enterprise Funds. In prior years, the City Capital Projects fund, on occasion, would construct assets that were used primarily by the Enterprise Funds. Depreciation on these assets is also allocated to the Enterprise Funds. The \$719,580 of business type depreciation reflected above is the allocation of this depreciation and is not reflected on the business type activities asset information reported below.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 8. Capital Assets (Continued)

Primary Government: (Continued)

A summary of the changes in the City's capital assets for business-type activities is as follows:

Business-type Activities	Beginning Balances	Transfers and Additions	Transfers and Retirements	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 5,647,355	\$ 328,439	\$ 167,134	\$ 5,808,660
Construction in progress	20,881,882	22,818,763	17,754,616	25,946,029
Total capital assets, not being depreciated	26,529,237	23,147,202	17,921,750	31,754,689
Capital assets, being depreciated:				
Land improvements	15,513,889	48,231	-	15,562,120
Buildings and improvements	35,812,400	1,306,624	-	37,119,024
Infrastructure	247,170,744	16,022,729	-	263,193,473
Machinery and equipment	11,279,804	93,698	361,675	11,011,827
Capitalized interest	5,590,502	1,027	-	5,591,529
Total capital assets, being depreciated	315,367,339	17,472,309	361,675	332,477,973
Less – accumulated depreciation for:				
Land improvements	11,934,499	506,424	-	12,440,923
Buildings and improvements	14,456,816	1,145,838	-	15,602,654
Infrastructure	67,605,132	5,751,252	-	73,356,384
Machinery and equipment	7,862,185	729,747	349,135	8,242,797
Capitalized interest	1,074,405	111,810	-	1,186,215
Total accumulated depreciation	102,933,037	8,245,071	349,135	110,828,973
Total capital assets, being depreciated	212,434,302	9,227,238	12,540	221,649,000
Business-type activities capital assets, net	\$ 238,963,539	\$ 32,274,440	\$ 17,394,290	\$ 253,403,689

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 8. Capital Assets (Continued)

Component Units:

A summary of changes in the capital assets of the Schools is as follows:

<u>Lynchburg City Schools</u>	<u>Beginning Balances</u>	<u>Transfers and Additions</u>	<u>Transfers and Retirements</u>	<u>Ending Balances</u>
Capital assets, being depreciated				
Equipment	\$ 6,085,787	\$ 607,691	\$ 423,716	\$ 6,269,762
Equipment – Cafeteria	510,903	30,035	-	540,938
Total capital assets, being depreciated	6,596,690	637,726	423,716	6,810,700
Less – accumulated depreciation for:				
Equipment	4,288,025	434,825	423,716	4,299,134
Equipment – Cafeteria	317,244	49,390	-	366,634
Total accumulated depreciation	4,605,269	484,215	423,716	4,665,768
Lynchburg City Schools capital assets, net	\$ 1,991,421	\$ 153,511	\$ -	\$ 2,144,932

Included above is property with a cost and net book value of \$1,869,751 and \$1,376,754, respectively, at June 30 financed by capital leases.

Details of capital assets of other Component Units are as follows:

Land, buildings, and improvements	\$ 2,139,760
Machinery and equipment	9,036,319
	11,176,079
Less accumulated depreciation	8,514,301
	\$ 2,661,778

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 9. Long-Term Liabilities

General Obligation Debt:

	Interest Rates (%)	Date Issued	Final Maturity	Original Issue	Primary Government			Total All Funds
					Public Improvements	School Facilities	Proprietary Funds	
Bond Anticipation Note								
Public Improvement								
Water & Sewer BAN	3.88	05/09/2006	2009	\$ 16,500,000	\$ -	\$ -	\$ 16,500,000	\$ 16,500,000
State Literary Fund Loans Payable								
Virginia Department of Treasury	4.00	07/01/1990	2011	372,412	-	68,412	-	68,412
Serial Bonds								
VPESA General Obligation	4.90-6.35	11/12/1992	2013	458,292	-	157,900	-	157,900
VA Resource Authority								
Loan	4.50	03/24/1994	2027	3,976,369	-	-	2,464,916	2,464,916
VPESA General Obligation	6.10-6.60	11/22/1994	2015	2,100,362	-	959,344	-	959,344
Public Improvement	4.60-5.40	04/01/1998	2015	33,855,000	3,223,325	2,899,725	4,541,950	10,665,000
Public Improvement	4.60-5.40	06/01/1999	2019	17,820,000	4,388,337	1,642,968	3,783,695	9,815,000
Public Improvement	5.30-5.60	07/01/2000	2010	14,405,000	699,126	286,074	634,800	1,620,000
Public Improvement	3.50-4.88	08/01/2001	2032	14,620,000	-	1,526,992	10,618,008	12,145,000
VPESA General Obligation	3.10-5.10	11/15/2001	2022	3,473,329	-	2,674,601	-	2,674,601
VPESA General Obligation	2.35-4.85	11/07/2002	2023	6,513,732	-	5,302,301	-	5,302,301
Public Improvement								
Refunding	2.00-5.00	02/01/2003	2014	23,670,000	3,233,009	383,018	6,468,973	10,085,000
Public Improvement	2.50-4.70	02/01/2003	2033	16,745,000	6,560,000	2,010,000	5,395,000	13,965,000
Public Improvement	3.00-5.00	06/01/2004	2034	28,160,000	9,110,000	8,835,000	7,120,000	25,065,000
Public Improvement								
Refunding	3.00-5.25	03/16/2005	2030	33,105,000	12,843,580	8,449,280	11,712,140	33,005,000
Taxable Refunding	3.90-4.86	03/16/2005	2014	3,810,000	-	3,760,000	-	3,760,000
VPESA General Obligation	4.60-5.10	11/10/2005	2026	6,411,957	-	6,138,853	-	6,138,853
Public Improvement	4.00-5.00	05/09/2006	2026	23,840,000	14,720,083	5,805,462	2,539,456	23,065,001
					\$ 54,777,460	\$ 50,899,930	\$ 71,778,938	\$ 177,456,328

Bonds issued between 1992 and 2007 are callable subject to a maximum premium of 2%.

Authorized and unissued general obligation public improvement bonds amounted to \$46,523,043 at June 30. This included \$16,800,000 as the authorization for the August 2, 2007 public improvement general obligation bond issuance.

The Constitution of Virginia, Article 7, Section 10(a) sets forth the City's legal debt limit at ten percent (10%) of its real estate assessed valuation for the City's issuance of any bonds or other interest-bearing obligations. As of June 30, the City's aggregate general obligation indebtedness was \$177,456,328 and less than the state limit. In December 2006, City Council amended the Debt Management Policy which limited tax-supported debt to four and a half percent (4.5%) of its assessed valuation of real estate subject to taxation. There are no overlapping tax jurisdictions.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 9. Long-Term Liabilities (Continued)

Revenue Debt:

	Interest Rates %	Date Issued	Final Maturity	Original Issue	Sewer Fund
Virginia Resources Authority:					
Public Utility Revenue Bonds	0.00%	03/28/1995	2027	\$ 6,571,207	\$ 3,476,798
Public Utility Revenue Bonds	0.00%	08/10/1995	2029	10,000,000	6,019,841
Public Utility Revenue Bonds	0.00%	06/27/1996	2029	8,000,000	4,659,947
Public Utility Revenue Bonds	3.00%	07/17/1997	2020	14,108,460	10,148,283
Public Utility Revenue Bonds	0.00%	07/17/1997	2030	7,591,540	5,105,947
Public Utility Revenue Bonds	0.00%	08/01/1998	2031	6,203,000	4,453,647
Public Utility Revenue Bonds	3.00%	06/02/1999	2020	2,476,763	1,778,132
Public Utility Revenue Bonds	0.00%	09/02/1999	2021	5,300,000	3,905,263
Public Utility Revenue Bonds	0.00%	03/15/2001	2032	735,000	563,684
Public Utility Revenue Bonds	3.50%	06/08/2001	2021	2,835,000	2,290,716
Public Utility Revenue Bonds	0.00%	11/06/2001	2034	1,413,613	1,191,388
Public Utility Revenue Bonds	0.00%	09/15/2003	2036	2,350,165	2,191,117
Public Utility Revenue Bonds	0.00%	05/20/2004	2038	6,000,000	5,900,000
Public Utility Revenue Bonds	0.00%	05/17/2005	2038	6,700,000	6,700,000
Public Utility Revenue Bonds	0.00%	06/28/2006	2039	9,600,000	9,600,000
Public Utility Revenue Bonds	0.00%	06/20/2007	2039	7,000,000	7,000,000
					<u>\$ 74,984,763</u>

The revenue bonds have been issued in accordance with the terms of an indenture agreement with the Virginia Resources Authority (VRA) of the Commonwealth of Virginia. The indenture agreement requires the City to pledge its Sewer Fund Revenues as collateral for the revenue bonds and to maintain debt coverage in the Sewer Fund equal to at least 1.15 of all debt service payments which exclude any refunded principal payments. As shown in the supplementary statistical table 21, the debt coverage ratio for the year ended June 30 was 1.57.

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Governmental Activities					
General obligation bonds	\$ 116,709,426	\$ -	\$ 8,116,440	\$ 108,592,986	\$ 7,782,532
Notes payable*	3,200,000	-	180,000	3,020,000	180,000
State literary fund loans	87,412	-	19,000	68,412	19,000
Adjust for deferred amounts:		-			
Issuance premiums	2,301,674	-	130,521	2,171,153	-
On refunding	(1,774,939)	-	(177,598)	(1,597,341)	-
Total bonds and notes	120,523,573	-	8,268,363	112,255,210	7,981,532
Workers' compensation	924,237	1,136,211	912,996	1,147,452	137,694
Compensated absences	3,451,825	2,686,374	2,579,992	3,558,207	426,986
Capitalized lease obligations	7,287,252	-	476,854	6,810,398	494,679
	<u>\$ 132,186,887</u>	<u>\$ 3,822,585</u>	<u>\$ 12,238,205</u>	<u>\$ 123,771,267</u>	<u>\$ 9,040,891</u>

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 9. Long-Term Liabilities (Continued)

Primary Government: (Continued)

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Business-Type Activities					
Bond anticipation notes	\$ 16,500,000	\$ -	\$ -	\$ 16,500,000	\$ -
General obligation bonds	57,532,084	-	5,237,154	52,294,930	5,147,886
Public utility revenue bonds	70,542,685	7,000,000	2,557,922	74,984,763	2,909,118
Adjust for deferred amounts:					
Issuance discounts	(237,185)	-	(25,701)	(211,484)	-
Issuance premiums	995,562	-	77,503	918,059	-
On refunding	(1,245,435)	-	(155,995)	(1,089,440)	-
Total bonds and notes payable	144,087,711	7,000,000	7,690,883	143,396,828	8,057,004
Workers' compensation	83,950	76,325	83,102	77,173	8,999
Compensated absences	382,319	336,783	305,947	413,155	49,579
Landfill – open landfill	2,637,961	908,814	262,506	3,284,269	553,212
Landfill – closed landfill	153,900	-	153,900	-	-
	<u>\$ 147,345,841</u>	<u>\$ 8,321,922</u>	<u>\$ 8,496,338</u>	<u>\$ 147,171,425</u>	<u>\$ 8,668,794</u>

*A note receivable was obtained concurrent with the issuance of this note payable. Neither instrument provided or consumed current financial resources and therefore, are not reflected in the fund statements. The note receivable is included in other assets on Exhibit 1.

Debt Service to Maturity:

Year Ending June 30	Governmental Activities						Business-Type Activities	
	Governmental Obligation		Literary Fund Loans		Capital Lease Obligations		General Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 7,782,532	\$ 4,908,843	\$ 19,000	\$ 2,736	\$ 494,679	\$ 247,597	\$ 2,312,792	\$ 1,313,175
2009	7,617,057	4,580,498	19,000	1,976	512,510	229,767	8,466,861	1,089,220
2010	7,714,680	4,268,753	19,000	1,216	530,986	211,290	1,961,560	885,197
2011	7,728,747	3,949,890	11,412	456	550,133	192,143	1,963,444	806,271
2012	7,274,268	3,636,576	-	-	436,756	172,277	1,619,696	735,031
2013-2017	32,575,806	13,208,349	-	-	1,697,274	666,101	6,750,434	2,718,084
2018-2022	22,355,474	6,459,410	-	-	2,050,590	312,786	3,843,292	1,548,344
2023-2027	13,353,093	2,078,005	-	-	537,470	14,686	2,897,924	940,412
2028-2032	2,051,330	235,120	-	-	-	-	2,303,085	365,762
2033-2036	139,999	7,700	-	-	-	-	280,000	19,040
2037-2041	-	-	-	-	-	-	-	-
Total	<u>\$ 108,592,986</u>	<u>\$ 43,333,144</u>	<u>\$ 68,412</u>	<u>\$ 6,384</u>	<u>\$ 6,810,398</u>	<u>\$ 2,046,647</u>	<u>\$ 32,399,088</u>	<u>\$ 10,420,536</u>

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 9. Long-Term Liabilities (Continued)

Debt Service to Maturity: (Continued)

Year Ending June 30	Business-Type Activities							
	Water Fund		General Obligation Solid Waste Management		Airport Fund		Revenue Bonds Sewer Fund	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 1,683,800	\$ 1,272,301	\$ 876,266	\$ 196,823	\$ 275,028	\$ 101,724	\$ 2,909,118	\$ 430,895
2009	11,498,385	1,004,412	584,943	154,373	243,019	89,591	3,097,845	402,168
2010	1,494,805	747,507	577,012	127,160	247,966	79,226	3,520,797	372,550
2011	1,458,045	683,356	588,271	99,958	248,756	68,536	3,551,334	342,012
2012	1,200,623	627,186	335,180	77,351	184,379	59,099	3,582,820	310,527
2013-2017	5,225,338	2,350,041	1,215,772	173,978	761,479	181,673	18,421,676	1,045,057
2018-2022	2,771,949	1,337,700	133,980	25,691	279,626	72,170	15,914,269	187,096
2023-2027	1,981,475	825,232	39,295	11,621	177,540	21,562	11,091,054	-
2028-2032	1,914,925	348,528	27,985	2,551	-	-	6,907,727	-
2033-2036	370,000	25,230	-	-	-	-	4,164,790	-
2037-2041	-	-	-	-	-	-	1,823,333	-
Total	\$ 29,599,345	\$ 9,221,493	\$ 4,378,704	\$ 869,506	\$ 2,417,793	\$ 673,581	\$ 74,984,763	\$ 3,090,305

Notes Payable, Bank:

In July 2002, the City issued a general obligation note to SunTrust Bank and concurrently entered into a financing agreement with the Bank. The agreement provided for borrowings of up to \$15,000,000 to provide interim financing for qualifying capital improvements. Interest was equal to the tax-exempt note rate as defined in the agreement, plus 0.45%, up to a maximum of 4%, payable in arrears, on a monthly basis. All outstanding amounts were due at final maturity on August 30, 2007. There was no principal activity during FY 2007 and no amounts outstanding at June 30, 2007.

Bond Anticipation Notes:

On May 9, 2006, the City issued \$16,500,000 general obligation bond public improvement anticipation notes (BANS) maturing on July 15, 2008 for interim financing of water and sewer projects. The notes bear interest at the rate of 3.875% per annum. On September 4, 2007 these BANS were redeemed and permanently financed with general obligation public improvement bonds dated August 2, 2007.

August 2, 2007 General Obligation Bond Issue:

The City of Lynchburg issued \$33,300,000 of general obligation public improvement bonds Series 2007 dated August 2, 2007 from its competitive bond sale on July 19, 2007. They were issued to fund general government capital projects, fleet public safety equipment and issuance costs. They were allocated as follows: \$15,445,000 for general government, \$1,190,000 for fleet public safety equipment; and \$10,100,000 and \$6,565,000 respectively for water and sewer utilities. This permanently financed the \$10,000,000 of water and \$6,500,000 of sewer general obligation bond anticipation notes issued May 9, 2006 through the current refunding on September 4, 2007. Bonds funding general government projects and fleet equipment were financed for twenty (20) years while the water and sewer bonds were financed for thirty (30) years. The final maturity date is August 1, 2037 for the bond with interest rates ranging from 4.125% to 5.00%. Bonds maturing on August 1 in each of the years 2018 through 2027, on August 1, 2032 and August 1, 2037 are insured under a financial guaranty insurance policy issued by MBIA Insurance Corporation purchased by the underwriter.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 9. Long-Term Liabilities (Continued)

Component Unit – Lynchburg City Schools:

The following is a summary of changes in other long-term liabilities:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Compensated absences	\$ 631,397	\$ 652,397	\$ 591,410	\$ 692,384	\$ -
Capital lease obligations	2,068,280	1,000,000	867,874	2,200,406	696,986
	<u>\$ 2,699,677</u>	<u>\$ 1,652,397</u>	<u>\$ 1,459,284</u>	<u>\$ 2,892,790</u>	<u>\$ 696,986</u>

School Capital Leases:

Interest Rates	Date Issued	Final Maturity	Original Issue	Balance
3.08%	02/2005	02/2010	\$ 1,000,000	\$ 552,419
3.39	09/2005	09/2010	750,000	489,235
2.99	09/2004	09/2009	500,000	234,051
2.93	09/2002	09/2007	1,000,000	54,352
4.12	08/2006	08/2011	500,000	423,641
3.83	10/2006	10/2011	500,000	446,708
				<u>\$ 2,200,406</u>

Following is a summary of debt service to maturity:

Year Ending June 30	Capital Lease Obligations	
	Principal	Interest
2007	\$ 696,986	\$ 65,454
2008	664,840	42,985
2009	533,934	21,087
2010	240,840	7,244
2011	63,806	532
Total	<u>\$ 2,200,406</u>	<u>\$ 137,302</u>

Note 10. Landfill Closure and Post-closure Care Costs

The City closed its Tyreeanna I landfill on October 8, 1993. In accordance with federal and state laws, the City placed a final cover on this site and was required to perform certain maintenance and monitoring functions for a minimum of ten years after closure, or until there were no remaining environmental issues. The City completed the ten-year period; however, due to the State's groundwater monitoring requirements, the City was required to continue to monitor the groundwater surrounding the facility. The method agreed upon by the State and the City was monitored natural attenuation. That required on-going, semi-annual testing of groundwater from wells located above and below the landfill. The cumulative amount of payments for closure and post-closure care costs to date for this site is approximately \$3.76 million. In January 2007, the Department of Environmental Quality released the City from further corrective actions at the site, and allowed the City to discontinue ongoing monitoring activities at this landfill.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 10. Landfill Closure and Post-closure Care Costs (Continued)

The City's Tyreeanna II landfill began accepting waste on October 8, 1993. State and federal laws require the City to place a final cover on this site when it stops accepting waste and to perform maintenance and monitoring functions for thirty years after closure. Although closure and post-closure care costs are paid only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used. Estimated closure and post-closure care costs at June 30, 2007 of approximately \$3.28 million for the Tyreeanna II landfill site is based upon the total estimated closure and post-closure care costs of approximately \$5.75 million times 57 percent of the landfill used to date. The City would recognize the remaining estimated cost of closure and post-closure of approximately \$2.47 million as the remaining estimated capacity is filled; however, the City expects to become a member of the Region 2000 Service Authority by July 1, 2008 and is anticipating transferring some portion of the assets and liabilities related to the landfill to the Authority at that time. (See Note 17)

The City uses the financial test method of demonstrating assurance for closure and post-closure care.

Note 11. Fund Equity Balances

Designated Fund Balance: Designations of fund balance are established to indicate tentative plans for financial resource utilization in a future period. Designations of fund balance are as follows:

	General	Special Revenue	Capital Projects
Self insurance and other insurance matters	\$ 2,420,399	\$ -	\$ -
Adopt a Bed	4,548	-	-
Health Insurance	195,000	-	-
Return of fiscal year 2007 funds to schools	1,254,741	-	-
Completion of other specific projects and activities	500,000	336,773	352,062
Court facilities	123,613	-	-
Schools - Textbooks	1,500,000	-	-
Schools - Health Insurance	750,000	-	-
Schools - Future Expenditure Needs	100,000	-	-
Circuit Court	22,799	-	-
	<u>\$ 6,871,100</u>	<u>\$ 336,773</u>	<u>\$ 352,062</u>

Deficit Fund Balances: At June 30, the Community Development Block Grant and the Home Investment Trust Funds had deficit fund balances.

Note 12. Employee Benefit Plans

Defined Benefits Pension Plan:

Plan Description: The City contributes to the Virginia Retirement System ("VRS"), an agent and cost-sharing multiple-employer defined pension plan administered by the Virginia Retirement System ("the System"). In addition, professional and non-professional employees of the Schools are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool, and non-professional employees participate as a separate group in the agency multiple-employer retirement system.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 12. Employee Benefit Plans (Continued)

Defined Benefits Pension Plan: (Continued)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final compensation ("AFC") for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to their unreduced Social Security eligibility age. The VRS also provides death and disability benefits.

Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The system issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded at their website or obtained by writing the System at P. O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy: Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer has assumed this 5% member contribution. In addition, the City and the Schools are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code* and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2007 was 19% of annual covered payroll. The School's contribution rates for the fiscal year ended 2007 were 14% for professional and 13% for non-professional employees. Both the City's and the School's contribution rates include the employee's share of 5% paid by the employer.

Annual Pension Cost: For 2007, the City's and Schools' annual pension costs of \$9,439,534 and \$7,094,119, respectively, were equal to their required and actual contributions. The required contributions were determined as part of the June 30, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.50% investment rate of return; (b) projected salary increases ranging from 3.75% to 5.60% per year (depending on the employee's service and classification (general employee or uniformed officer)), and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City's and Schools' assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and Schools' unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 21 years.

Trend Information for the City of Lynchburg			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	\$ 9,439,534	100%	None
June 30, 2006	\$ 8,607,370	100%	None
June 30, 2005	\$ 8,336,842	100%	None

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 12. Employee Benefit Plans (Continued)

Defined Benefits Pension Plan: (Continued)

Trend Information for the Lynchburg City Schools			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	\$ 7,094,119	100%	None
June 30, 2006	\$ 5,543,969	100%	None
June 30, 2005	\$ 4,636,607	100%	None

Post Retirement Health Care Benefits:

In addition to providing pension benefits, the City provides certain health care benefits to full-time employees when they retire. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the City. At June 30, there were 512 employees eligible to receive these benefits. The cost of providing these benefits is recognized as paid and was approximately \$2,051,000 for the year ended June 30.

Note 13. Leases

Lessee:

Operating leases have original terms from one month to 60 months and in certain instances allow cancellations if funds are not appropriated for each year's payments. At June 30, future minimum lease payments are as follows:

Year Ending June 30	Operating Leases	
	Primary Government	Component Unit – Schools
2008	\$ 344,948	\$ 417,361
2009	161,095	385,981
2010	114,636	170,359
2011	50,796	79,323
2012	50,796	-
2013-2017	253,980	69,758
2018-2022	203,184	-
	<u>\$ 1,179,435</u>	<u>\$ 1,122,782</u>

For 2007, the City incurred rental expenditures of \$355,480 and \$30,464 in the General Fund and Special Revenue Funds, respectively, and rental expense of \$24,296 in the Enterprise Fund. For 2007, the Schools incurred rental expenditures of \$734,106.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 14. Risk Management

The Risk Management Programs of the City are as follows:

Workers' Compensation: The City is self-insured for workers' compensation claims. All settled claims are paid through the General Fund. The liability for worker's compensation claims, including an estimate of incurred but not reported claims based on prior experience, to be paid in the next fiscal year and in future years is reflected in the statement of net assets. Total claims paid for the year ended June 30 amounted to \$996,098.

General Liability and Other: The City is self-insured for general liability and automobile liability claims and purchases insurance coverage for risks related to property, boiler and machinery, surety bonds, and airport liability. City property is insured up to a limit of approximately \$285,000,000 per occurrence. Other liability policies provide up to \$60,000,000 coverage in the aggregate. Police professional liability and public officials' liability claims with a \$500,000 deductible per claim are covered through a policy with the States Self Insurance Risk Group. Total premiums for purchased coverage for the year ended June 30 were \$625,605. The City has designated a portion of its fund balance in the General Fund to fund future general liability claims. City management believes any incurred but not reported claims at June 30 would be insignificant.

Healthcare: The City's professionally administered self-insurance program provides healthcare coverage for employees and retirees of the City on a cost-plus basis. Dependents of employees and retirees are also covered by the program provided they pay a premium to the City. Under the program, the City is obligated for claims payments and administrative costs. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$150,000 per covered individual per contract year. Total claims settlements did not exceed coverage for the last three years. For the year ended June 30, total claims expense of \$5,902,559 was incurred. Claims above the per individual limit that will be covered by the stop loss policy totaled approximately \$757,103, and will be reimbursed to the City. Administrative fees and stop loss premiums for the year ended June 30 totaled \$649,622. Estimated incurred, but not reported, claims at June 30 based on invoices received totaled \$1,821,498 and have been funded by the City.

Changes in aggregate liabilities were as follows:

		Beginning of Year	Claims and Reserves	Claim Payments	End of Year
Workers' Compensation	2007	\$ 1,008,187	\$ 1,212,536	\$ 996,098	\$ 1,224,625
	2006	\$ 547,310	\$ 1,350,644	\$ 889,767	\$ 1,008,187
General/Automotive Liability	2007	\$ 19,750	\$ 165,225	\$ 184,975	\$ -
	2006	\$ 15,868	\$ 177,772	\$ 173,890	\$ 19,750
Healthcare	2007	\$ 777,839	\$ 6,946,218	\$ 5,902,559	\$ 1,821,498
	2006	\$ 787,185	\$ 5,591,724	\$ 5,601,070	\$ 777,839

General/Automobile Liability and Healthcare are considered current liabilities and are included in accounts payable and accrued liabilities in the Statement of Net Assets. Workers' Compensation breakdown between current and noncurrent is shown in Note 9.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 14. Risk Management (Continued)

The Risk Management Program of the Schools is as follows:

Workers' Compensation: The Schools is a member of the School System of Virginia for its workers' compensation claims. The membership is funded through the school operating budget.

General Liability and Other: The Schools carries commercial insurance for all risk of loss. Settled claims have not exceeded commercial insurance coverage and there have not been any significant reductions in insurance coverage over the previous year.

Healthcare: The Schools' professionally administered self-insurance program provides healthcare coverage for employees and retirees of the Schools on a cost-plus basis. Dependents of employees and retirees are also covered by the program provided they pay a premium to the Schools. Under the program, the Schools are obligated for claims payments and administrative costs. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$125,000 per covered individual per contract year. Total claims settlements did not exceed coverage for the last three years. For the year ended June 30, total claims expense of \$6,360,475, which did not exceed the stop loss provisions, was incurred. Administrative fees and stop loss premiums for the year ended June 30 totaled \$605,532. Estimated incurred, but not reported, claims at June 30 based on prior experience totaled \$822,724 and have been funded by the Schools.

Changes in aggregate liabilities were as follows:

		Beginning of Year	Claims and Reserves	Claim Payments	End of Year
Healthcare	2007	\$ 802,628	\$ 6,380,571	\$ 6,360,475	\$ 822,724
	2006	\$ 870,438	\$ 4,386,875	\$ 4,454,685	\$ 802,628

Note 15. Significant Transactions of the City and Discretely Presented Component Unit – Schools

Certain transactions between the City and Schools are explained here to provide a more informed understanding of the operational relationship of the two entities and how such transactions are presented in the financial statements.

1. The Schools can neither levy taxes nor incur debt under Virginia law. Therefore, the City issues debt "on behalf" of the Schools. The debt obligation is recorded as a liability of the City's governmental activities. The proceeds from such debt are recorded in the City's General Fund. Funding in an amount equal to the proceeds is then provided to the Schools to pay for capital expenditures. Unspent funds at year-end are reported as deposits and investments of the City in the School Capital Projects Fund.
2. The City's budgeting process provides funding in the General Fund for Schools debt service payments. GAAP requires that debt issued "on behalf" of the Schools and related debt service payments be reported by the City for financial reporting purposes. Therefore, debt service payments for Schools' bonded debt is reported as part of the City for financial reporting purposes in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. Debt and related debt service for other than bonded debt is reported by the Schools.
3. If all economic resources associated with school activities were reported with the Schools, its total expenses/expenditures would be as follows:

Expenses of Schools – Component Unit (Exhibit 2)	\$ 89,005,585
Principal and other debt service expenses included in City	<u>5,965,474</u>
Total expenses/expenditures for School activities	<u>\$ 94,971,059</u>

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 16. Commitments and Contingencies

Combined Sewer Overflow:

In 2000, the City completed an update of the Combined Sewer Overflow (“CSO”) program developed in 1989. The purpose was to reevaluate the conclusions and recommendations of the original program, prioritize remaining work, and provide a current cost estimate for this work. After detailed evaluation of a wide variety of control alternatives, the update concluded that sewer separation remained the most cost-effective CSO control option. Total cost to complete the program was estimated to be \$276,000,000 in 1999 dollars. Updated estimates indicate that the total remaining cost of CSO control work, including related work such as sewer replacement/rehabilitation, waterline replacement and street paving will total approximately \$312,000,000 in 2007 dollars.

In 1994, and with subsequent permit renewals, the Virginia Department of Environmental Quality (“VDEQ”) issued a sewage discharge permit and consent Special Order continuing the terms and conditions that will govern implementation of the City’s CSO control plan. The permit requires the City to implement the CSO control plan and to undertake certain combined sewer management practices designed to minimize CSO discharge until the sewer system is completely separated. The order established a project priority listing for implementation of the CSO control plan.

The Special Order does not contain a strict compliance schedule for implementing the CSO control plan, but rather provides for implementation based on criteria reflecting the limits of the City’s financial capability. The Special Order requires the City to meet several specific criteria such as: maintaining a sewer operating fund debt coverage ratio within a range of 1.1 to 1.5; sewer fund reserves to equal no more than 25 percent of the subsequent years’ budgeted operating expenditures; and to maintain an average residential, yearly sewer bill equal to 1.25% of median household income based on 7 hcf (hundred cubic feet) of use per month. The City is currently implementing the CSO control plan in accordance with the requirements of its permit and consent order. Further, the City is required by the consent order to submit annual reports, including independent rate consultant reports to VDEQ on its compliance with the order and its progress with CSO control plan implementation. The current CSO Annual Report can be found at www.Lynchburgva.gov/cso under “status” link.

Construction and Related Commitments:

At June 30, the City had outstanding commitments under various construction contracts totaling approximately \$23,150,000.

Grant Programs:

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as to being appropriate expenditures under terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Management believes disallowances, if any, related to such audits would not be material to the financial position of the City at June 30, 2007.

Lead Hazard Program:

The Lead Hazard Control grant is currently under investigation by the Department of Housing and Urban Development (HUD) and estimates indicate the investigation could last over a year. Management has not been notified of any disallowances pertaining to this particular grant, therefore Management cannot determine if an adjustment to the financial position of the City at June 30, 2007 is required. In addition, Management is unable to predict the estimated range of potential loss that could arise in future periods as a result of this investigation.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 16. Commitments and Contingencies (Continued)

Arbitrage:

The City has certain debt instruments subject to arbitrage regulations. The City is working to ensure that the final spend down test for the 2006 Debt Issuance is met by funding general government projects currently in progress instead of utility projects that were deferred due to construction issues. Management is of the opinion that no amounts will be required to be rebated.

Business Personal Property Tax Refund:

The City has been contacted by a local corporate taxpayer regarding its error in filing Business Personal Property Taxes. The taxpayer has requested a refund. Discussions are underway to determine the amount, which is estimated by management not to exceed \$185,000, and a multi-year repayment plan.

Note 17. Subsequent Events

Capital Leases:

Subsequent to year-end, the School Board approved a lease/purchase of new school buses in the amount of approximately \$500,000.

Regional Solid Waste Authority:

The City will convey its active landfill for an initial payment of approximately \$1.7 million. This amount approximates the net value of the assets, including land, buildings, equipment, and other assets, less the outstanding debt and related landfill closure/post-closure liability. The City will continue to be responsible for ongoing stormwater and methane gas monitoring around the closed landfill.

The City has approved the establishment of the Region 2000 Services Authority (Authority) and entered into a Member Use Agreement for the purpose of consolidating solid waste operations. The City of Lynchburg, Campbell County, City of Bedford and Nelson County are all members of the Authority. The Authority expects to be fully operational July 1, 2008.

Loan Agreement:

In 2004, the City entered into a contract with the U.S. Department of Housing and Urban Development (HUD) whereas the City is the borrower and HUD is the guarantor of a Section 108 loan (note 9). With the funds borrowed from HUD, the City entered into a loan agreement with Bluffwalk Center L.P. (Bluffwalk). The City loaned Bluffwalk \$3,200,000 with payments required twice a year. Subsequent to year-end Bluffwalk did not make the August payment in the amount of \$257,944. The City fulfilled their obligation to HUD by making the required payment using funds previously appropriated for Downtown. The City expects to recover the funds from Bluffwalk.

Airport Authority:

During FY 2007 the Virginia General Assembly passed H.B. 2800, Virginia's Region 2000 Airport Authority Act (Act). The Act authorizes the City and the governing bodies of Amherst, Appomattox, Bedford, and Campbell to form an authority for the purpose of owning and managing an airport authority.

A group consisting of the City Manager and several area County Administrators was formed to discuss forming an authority.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 18. New Accounting Standard

The Governmental Accounting Standards Board ("GASB") has issued its Statement No. 45 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Statement establishes standards for the measurement, recognition and display of OPEB expense and related liabilities in the financial statements. While management has not completed the process of evaluating the impact that will result from adoption of the standard, an initial estimate of expected cost has been performed by an actuary. The actuarial report states that the five year projected Net OPEB Obligation, at the end of the first year of implementation, is estimated to be approximately \$3,500,000 for the City and \$600,000 for the Schools. The estimate was based on current policies regarding retiree health coverage. The requirements of the Statement are effective for the City starting with the year ending June 30, 2008.

For the FY 2008 Adopted Budget, the City approved funding of \$250,000 for the liability in addition to the pay as you go budget.

Note 19. Restatement of Fund Balances and Net Assets

The following is a summary of the restatements of opening fund balances/net assets:

	Primary Government			Component Unit
	General Fund	Other Governmental Funds	Entity-wide Governmental Activities	Entity-wide Schools
Fund Balance/Net Assets June 30, 2006, as previously stated	\$ 36,786,549	\$ 20,584,299	\$ 185,864,143	\$ 1,478,223
Restatement to:				
Reverse expenditure made in prior year and record accounts receivable for a loan made to the Lynchburg Industrial Development Authority.	310,000	-	310,000	-
Accrue revenue related to FY2006 expenditures for the Kemper Hike/Bike Trail grant.	-	514,815	514,815	-
Accrue revenue related to FY2006 expenditures for the Industrial Access grant.	-	349,000	349,000	-
To reflect the Commonwealth's position that August sales tax payments are derived from June transactions and thus should be included in revenue and net assets.	-	-	-	768,941
Net change in fund balance/net assets	310,000	863,815	1,173,815	768,941
Fund balance/Net assets June 30, 2006, as restated	\$ 37,096,549	\$ 21,448,114	\$ 187,037,958	\$ 2,247,164

REQUIRED SUPPLEMENTAL INFORMATION

Required Supplemental Information
Schedule of Funding Progress for Defined Benefit Pension Plan
As of June 30, 2007

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
<hr/>						
A. City of Lynchburg						
June 30, 2006	\$ 164,983,802	\$ 217,758,304	\$ 52,774,502	75.76%	\$ 44,982,744	117.32%
June 30, 2005	\$ 156,274,905	\$ 217,852,510	\$ 61,577,605	71.73%	\$ 44,136,215	139.52%
June 30, 2004	\$ 152,274,985	\$ 201,641,348	\$ 49,366,363	75.52%	\$ 42,326,002	116.63%
B. Lynchburg City Schools Non-professional Employees						
June 30, 2006	\$ 8,789,493	\$ 9,724,497	\$ 935,004	90.39%	\$ 3,329,413	28.08%
June 30, 2005	\$ 8,276,265	\$ 9,669,137	\$ 1,392,872	85.59%	\$ 3,236,234	43.04%
June 30, 2004	\$ 8,121,421	\$ 8,826,809	\$ 705,388	92.01%	\$ 3,044,001	23.17%

OTHER SUPPLEMENTAL INFORMATION

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CITY OF LYNCHBURG, VIRGINIA

Nonmajor Governmental Funds

As of June 30, 2007

Nonmajor Governmental Funds:

Nonmajor governmental funds consist of special revenue and capital projects funds.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Funds in this category include:

- City Federal/State Aid Projects Fund – Accounts for various federal and state grants for such purposes as building projects, certain social service and community development programs, and public safety.
- Community Development Block Grant Fund – Accounts for revenues from the Department of Housing and Urban Development which are used for various development projects.
- Museum System Fund – Accounts for revenues received in support of the City's various museums.
- Lynchburg Business Development Centre Fund – Accounts for revenues received to support a local business incubator and for monies received from the Economic Development Administration for a revolving loan fund and certain other assistance.
- Detention Home Fund – Accounts for revenues received and expenditures made to support the operations of the City's Juvenile Detention Home.
- Law Library Fund – Accounts for fees received to support the operation of the Law Library.
- Forfeited Assets Fund – Accounts for revenues received from the sale of confiscated assets which are related to illegal drug sales and are used for law enforcement expenditures for drug related activities.
- Lynchburg Expressway Appearance Fund – Accounts for the revenues and expenditures associated with beautification of the Lynchburg Expressway Area.
- Comprehensive Services Act Fund – Accounts for revenues received and expenditures made to support the Comprehensive Services Act for At-Risk Youth and Families adopted by the Virginia General Assembly.
- E-911 Fund – Accounts for revenues for the operations and capital expenditures of the E-911 system. In addition, accounts for the City's share of ownership of the Central Virginia Regional Radio Communication Board.
- Home Investment Trust Fund – Accounts for revenues received from the Department of Housing and Urban Development for support of affordable housing needs in the City.
- Technology Fund – Accounts for revenues received to support the acquisition of computer equipment and maintaining network equipment, servers, and the A/S 400.
- Baseball Stadium Fund – Accounts for revenues received from baseball activities at the Lynchburg City Stadium.

Capital Projects Funds account for all resources used for the acquisition or construction of capital facilities except those financed by Enterprise Funds and federal and state grants. Funds in this category include:

- City Capital Projects Fund – Accounts for budgeted capital projects approved by City Council. The major source of this fund's resources is bond proceeds.
- School Capital Projects Fund – Accounts for budgeted capital projects approved by the Lynchburg City Schools related to educational activities.

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	Special Revenue Total	Capital Projects Total	Total Nonmajor Governmental
Assets			
Cash and cash equivalents	\$ 1,319,833	\$ 3,282,028	\$ 4,601,861
Investments	1,498,590	11,851,029	13,349,619
Receivables, net of allowance			
Other	595,994	500,302	1,096,296
Due from other funds	-	1,580,000	1,580,000
Due from component units	145,000	1,358,000	1,503,000
Due from other governments	2,125,105	311,495	2,436,600
Other assets	213	-	213
Restricted assets:			
Cash and cash equivalents	-	1,961,859	1,961,859
Total assets	\$ 5,684,735	\$ 20,844,713	\$ 26,529,448
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 1,014,054	\$ 1,589,342	\$ 2,603,396
Accrued liabilities	39,235	-	39,235
Due to other governments	850	997	1,847
Due to other funds	991,348	124,691	1,116,039
Deferred revenue	133,720	302	134,022
Total liabilities	2,179,207	1,715,332	3,894,539
Fund balances			
Reserved for:			
Encumbrances	285,952	4,644,370	4,930,322
Advances	-	500,000	500,000
Unreserved, reported in special revenue			
Designated	336,773	-	336,773
Undesignated	2,882,803	-	2,882,803
Unreserved, reported in capital projects			
Designated	-	352,062	352,062
Undesignated	-	13,632,949	13,632,949
Total fund balances	3,505,528	19,129,381	22,634,909
Total liabilities and fund balances	\$ 5,684,735	\$ 20,844,713	\$ 26,529,448

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue Total	Capital Projects Total	Total Nonmajor Governmental
Revenues			
Taxes	\$ 496,619	\$ -	\$ 496,619
Intergovernmental	10,123,821	4,075,771	14,199,592
Revenue from use of money and property	1,061,122	-	1,061,122
Charges for services	3,397,044	-	3,397,044
Miscellaneous	544,947	1,087,605	1,632,552
Total revenues	15,623,553	5,163,376	20,786,929
Expenditures			
Current operating expenditures			
General government	456,214	-	456,214
Judicial	1,096,509	-	1,096,509
Public safety	4,138,262	-	4,138,262
Public works	48,756	2,153,640	2,202,396
Health and human services	6,309,085	-	6,309,085
Cultural and recreational	1,475,397	-	1,475,397
Community development	2,681,914	-	2,681,914
Education	-	189,047	189,047
Capital outlay			
Capital general government	-	12,619,947	12,619,947
Debt Service			
Principal retirements	725,439	-	725,439
Interest payments and other fiscal charges	319,212	-	319,212
Total expenditures	17,250,788	14,962,634	32,213,422
Deficiency of revenues over expenditures	(1,627,235)	(9,799,258)	(11,426,493)
Other financing sources (uses)			
Transfers in	1,404,456	12,963,501	14,367,957
Transfers out	(713,741)	(1,040,928)	(1,754,669)
Total other financing sources (uses)	690,715	11,922,573	12,613,288
Net changes in fund balances	(936,520)	2,123,315	1,186,795
Fund balances - beginning, as restated	4,442,048	17,006,066	21,448,114
Fund balances - ending	\$ 3,505,528	\$ 19,129,381	\$ 22,634,909

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2007

	City Federal State Aid Projects	Community Development Block Grant	Lynchburg Business Development Centre	Museum System	Law Library	Forfeited Assets	E-911
Assets							
Cash and cash equivalents	\$ 548,598	\$ -	\$ 171	\$ 16,497	\$ 22,429	\$ 233,216	\$ -
Investments	-	-	-	-	-	-	-
Receivables, net of allowance							
Other	103,030	226,326	-	286	-	-	-
Due from component unit	-	-	145,000	-	-	-	-
Due from other governments	321,905	18	-	-	-	46,418	-
Other assets	-	-	213	-	-	-	-
Total assets	<u>\$ 973,533</u>	<u>\$ 226,344</u>	<u>\$ 145,384</u>	<u>\$ 16,783</u>	<u>\$ 22,429</u>	<u>\$ 279,634</u>	<u>\$ -</u>
Liabilities and fund balance							
Liabilities							
Accounts payable	\$ 115,587	\$ 83,899	\$ -	\$ -	\$ 1,324	\$ 824	\$ -
Accrued liabilities	17,769	-	-	-	-	-	-
Due to other governments	200	210	-	-	-	-	-
Due to other funds	62,349	255,540	20,000	-	-	235	-
Deferred revenue	120,197	13,237	-	286	-	-	-
Total liabilities	<u>316,102</u>	<u>352,886</u>	<u>20,000</u>	<u>286</u>	<u>1,324</u>	<u>1,059</u>	<u>-</u>
Fund balances (deficits)							
Reserved for:							
Encumbrances	121,771	71,005	-	-	519	-	-
Unreserved:							
Designated	10,198	-	-	-	-	278,575	-
Undesignated	525,462	(197,547)	125,384	16,497	20,586	-	-
Total fund balances (deficits)	<u>657,431</u>	<u>(126,542)</u>	<u>125,384</u>	<u>16,497</u>	<u>21,105</u>	<u>278,575</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 973,533</u>	<u>\$ 226,344</u>	<u>\$ 145,384</u>	<u>\$ 16,783</u>	<u>\$ 22,429</u>	<u>\$ 279,634</u>	<u>\$ -</u>

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2007

	Compre- hensive Services Act	Lynchburg Expressway Appearance	Home Investment Trust	Detention Home	Technology Services	Baseball Stadium	Total Nonmajor Special Revenue
Assets							
Cash and cash equivalents	\$ 1,835	\$ 24,865	\$ -	\$ 1,390	\$ 378,095	\$ 92,737	\$ 1,319,833
Investments	-	-	-	-	1,498,590	-	1,498,590
Receivables, net of allowance							
Other	-	-	-	-	301	266,051	595,994
Due from component unit	-	-	-	-	-	-	145,000
Due from other governments	1,318,308	-	130,792	307,664	-	-	2,125,105
Other assets	-	-	-	-	-	-	213
Total assets	<u>\$ 1,320,143</u>	<u>\$ 24,865</u>	<u>\$ 130,792</u>	<u>\$ 309,054</u>	<u>\$ 1,876,986</u>	<u>\$ 358,788</u>	<u>\$ 5,684,735</u>
Liabilities and fund balance							
Liabilities							
Accounts payable	\$ 727,835	\$ 489	\$ 41,772	\$ 17,034	\$ 16,997	\$ 8,293	\$ 1,014,054
Accrued liabilities	564	-	-	20,902	-	-	39,235
Due to other governments	440	-	-	-	-	-	850
Due to other funds	456,043	-	105,792	91,389	-	-	991,348
Deferred revenue	-	-	-	-	-	-	133,720
Total liabilities	<u>1,184,882</u>	<u>489</u>	<u>147,564</u>	<u>129,325</u>	<u>16,997</u>	<u>8,293</u>	<u>2,179,207</u>
Fund balances (deficits)							
Reserved for:							
Encumbrances	-	6,585	8,067	37,143	35,627	5,235	285,952
Unreserved:							
Designated	-	-	-	48,000	-	-	336,773
Undesignated	135,261	17,791	(24,839)	94,586	1,824,362	345,260	2,882,803
Total fund balances (deficits)	<u>135,261</u>	<u>24,376</u>	<u>(16,772)</u>	<u>179,729</u>	<u>1,859,989</u>	<u>350,495</u>	<u>3,505,528</u>
Total liabilities and fund balances	<u>\$ 1,320,143</u>	<u>\$ 24,865</u>	<u>\$ 130,792</u>	<u>\$ 309,054</u>	<u>\$ 1,876,986</u>	<u>\$ 358,788</u>	<u>\$ 5,684,735</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Special Revenue Funds

For the Year Ended June 30, 2007

	City/Federal State Aid Projects	Community Development Block Grant	Lynchburg Business Development Centre	Museum System	Law Library	Forfeited Assets	E-911
Revenues							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 464,582
Intergovernmental	4,276,439	1,048,583	-	-	-	172,606	-
Revenue from use of money and property	4,705	-	29,773	-	-	3,625	7,428
Charges for services	40,600	82,376	-	8,164	64,471	-	-
Miscellaneous	20,172	28,137	-	1,239	-	-	-
Total revenues	4,341,916	1,159,096	29,773	9,403	64,471	176,231	472,010
Expenditures							
Current operating expenditures							
General government	-	-	-	-	-	-	-
Judicial	1,074,179	-	-	-	-	22,330	-
Public safety	962,258	-	-	-	-	42,376	568,125
Public works	-	-	-	-	-	-	-
Health and human services	2,018,129	-	-	-	-	-	-
Cultural and recreational	7,137	-	-	6,063	21,256	-	-
Community development	949,978	1,221,019	29,773	-	-	-	-
Debt service							
Principal retirements	-	-	-	-	-	-	378,703
Interest payments and other fiscal charges	-	-	-	-	-	-	88,537
Total expenditures	5,011,681	1,221,019	29,773	6,063	21,256	64,706	1,035,365
Excess (deficiency) of revenues over expenditures	(669,765)	(61,923)	-	3,340	43,215	111,525	(563,355)
Other financing sources (uses)							
Transfers in	342,463	-	-	-	-	-	-
Transfers out	(51,528)	-	-	(6,648)	(26,150)	(1,893)	(1,079)
Total other financing sources (uses)	290,935	-	-	(6,648)	(26,150)	(1,893)	(1,079)
Net changes in fund balances	(378,830)	(61,923)	-	(3,308)	17,065	109,632	(564,434)
Fund balances - beginning	1,036,261	(64,619)	125,384	19,805	4,040	168,943	564,434
Fund balances - ending	\$ 657,431	\$ (126,542)	\$ 125,384	\$ 16,497	\$ 21,105	\$ 278,575	\$ -

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	Compre- hensive Services Act	Lynchburg Expressway Appearance	Home Investment Trust	Detention Home	Technology Services	Baseball Stadium	Total Nonmajor Special Revenue
Revenues							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,037	\$ 496,619
Intergovernmental	3,025,929	-	423,610	1,176,654	-	-	10,123,821
Revenue from use of money and property	-	-	-	-	109,766	905,825	1,061,122
Charges for services	1,129,848	-	-	1,806,131	-	265,454	3,397,044
Miscellaneous	101,082	29,500	45,877	440	19,015	299,485	544,947
Total revenues	<u>4,256,859</u>	<u>29,500</u>	<u>469,487</u>	<u>2,983,225</u>	<u>128,781</u>	<u>1,502,801</u>	<u>15,623,553</u>
Expenditures							
Current operating expenditures							
General government	-	-	-	4,102	452,112	-	456,214
Judicial	-	-	-	-	-	-	1,096,509
Public safety	-	-	-	2,565,503	-	-	4,138,262
Public works	-	48,756	-	-	-	-	48,756
Health and human services	4,290,956	-	-	-	-	-	6,309,085
Cultural and recreational	-	-	-	-	-	1,440,941	1,475,397
Community development	-	-	481,144	-	-	-	2,681,914
Debt service	-	-	-	-	-	-	-
Principal retirements	-	-	-	260,726	-	86,010	725,439
Interest payments and other fiscal charges	-	-	-	106,771	-	123,904	319,212
Total expenditures	<u>4,290,956</u>	<u>48,756</u>	<u>481,144</u>	<u>2,937,102</u>	<u>452,112</u>	<u>1,650,855</u>	<u>17,250,788</u>
Excess (deficiency) of revenues over expenditures	<u>(34,097)</u>	<u>(19,256)</u>	<u>(11,657)</u>	<u>46,123</u>	<u>(323,331)</u>	<u>(148,054)</u>	<u>(1,627,235)</u>
Other financing sources (uses)							
Transfers in	-	-	-	-	909,643	152,350	1,404,456
Transfers out	-	-	-	-	(626,443)	-	(713,741)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>283,200</u>	<u>152,350</u>	<u>690,715</u>
Net changes in fund balances	<u>(34,097)</u>	<u>(19,256)</u>	<u>(11,657)</u>	<u>46,123</u>	<u>(40,131)</u>	<u>4,296</u>	<u>(936,520)</u>
Fund balances - beginning	<u>169,358</u>	<u>43,632</u>	<u>(5,115)</u>	<u>133,606</u>	<u>1,900,120</u>	<u>346,199</u>	<u>4,442,048</u>
Fund balances - ending	<u>\$ 135,261</u>	<u>\$ 24,376</u>	<u>\$ (16,772)</u>	<u>\$ 179,729</u>	<u>\$ 1,859,989</u>	<u>\$ 350,495</u>	<u>\$ 3,505,528</u>

Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2007

	<u>City Capital Projects</u>	<u>School Capital Projects</u>	<u>Total Nonmajor Capital Projects</u>
Assets			
Cash and cash equivalents	\$ 258,119	\$ 3,023,909	\$ 3,282,028
Investments	10,075,509	1,775,520	11,851,029
Receivables, net of allowance			
Other	500,302	-	500,302
Due from other funds	1,580,000	-	1,580,000
Due from component unit	-	1,358,000	1,358,000
Due from other governments	311,495	-	311,495
Restricted assets:			
Cash and cash equivalents	1,961,859	-	1,961,859
Total assets	<u>\$ 14,687,284</u>	<u>\$ 6,157,429</u>	<u>\$ 20,844,713</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 999,205	\$ 590,137	\$ 1,589,342
Due to other governments	997	-	997
Due to other funds	124,691	-	124,691
Deferred revenue	302	-	302
Total liabilities	<u>1,125,195</u>	<u>590,137</u>	<u>1,715,332</u>
Fund Balances			
Reserved for:			
Encumbrances	3,730,730	913,640	4,644,370
Advances	500,000	-	500,000
Unreserved:			
Designated	352,062	-	352,062
Undesignated	8,979,297	4,653,652	13,632,949
Total fund balances	<u>13,562,089</u>	<u>5,567,292</u>	<u>19,129,381</u>
Total liabilities and fund balances	<u>\$ 14,687,284</u>	<u>\$ 6,157,429</u>	<u>\$ 20,844,713</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Year Ended June 30, 2007

	<u>City Capital Projects</u>	<u>School Capital Projects</u>	<u>Total Nonmajor Capital Projects</u>
Revenues			
Intergovernmental	\$ 1,863,677	\$ 2,212,094	\$ 4,075,771
Miscellaneous	37,811	1,049,794	1,087,605
Total revenues	<u>1,901,488</u>	<u>3,261,888</u>	<u>5,163,376</u>
Expenditures			
Current operating expenditures			
Public works	2,153,640	-	2,153,640
Education	-	189,047	189,047
Capital outlay			
Capital general government	7,974,631	4,645,316	12,619,947
Total expenditures	<u>10,128,271</u>	<u>4,834,363</u>	<u>14,962,634</u>
Excess expenditures over revenues	<u>(8,226,783)</u>	<u>(1,572,475)</u>	<u>(9,799,258)</u>
Other financing sources (uses)			
Transfers in	8,822,595	4,140,906	12,963,501
Transfers out	(1,040,928)	-	(1,040,928)
Total other financing sources (uses)	<u>7,781,667</u>	<u>4,140,906</u>	<u>11,922,573</u>
Net changes in fund balances	<u>(445,116)</u>	<u>2,568,431</u>	<u>2,123,315</u>
Fund balances - beginning, as restated	<u>14,007,205</u>	<u>2,998,861</u>	<u>17,006,066</u>
Fund balances - ending	<u>\$ 13,562,089</u>	<u>\$ 5,567,292</u>	<u>\$ 19,129,381</u>

Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2007

	Special Welfare	Central Virginia Regional Radio Board	Total Agency
Assets			
Cash and cash equivalents	\$ 107,696	\$ 289,776	\$ 397,472
Receivables, net of allowance			
Other	-	12,428	12,428
Total Assets	\$ 107,696	\$ 302,204	\$ 409,900
Liabilities			
Accounts payable	\$ 4,828	\$ -	\$ 4,828
Amounts held for others	102,868	302,204	405,072
Total Liabilities	\$ 107,696	\$ 302,204	\$ 409,900

Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<u>Special Welfare</u>				
Assets				
Cash and cash equivalents	\$ 95,862	\$ 167,700	\$ 155,866	\$ 107,696
Total Assets	\$ 95,862	\$ 167,700	\$ 155,866	\$ 107,696
Liabilities				
Accounts payable	\$ 4,090	\$ 33,904	\$ 33,166	\$ 4,828
Amounts held for others	91,772	206,447	195,351	102,868
Total Liabilities	\$ 95,862	\$ 240,351	\$ 228,517	\$ 107,696
<u>Central Virginia Regional Radio Board</u>				
Assets				
Cash and cash equivalents	\$ 102,417	\$ 2,218,933	\$ 2,031,574	\$ 289,776
Receivables, net of allowance				
Other	-	12,428	-	12,428
Total Assets	\$ 102,417	\$ 2,231,361	\$ 2,031,574	\$ 302,204
Liabilities				
Amounts held for others	\$ 102,417	\$ 1,801,587	\$ 1,601,800	\$ 302,204
Total Liabilities	\$ 102,417	\$ 1,801,587	\$ 1,601,800	\$ 302,204
<u>Total All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 198,279	\$ 2,386,633	\$ 2,187,440	\$ 397,472
Receivables, net of allowance				
Other	-	12,428	-	12,428
Total Assets	\$ 198,279	\$ 2,399,061	\$ 2,187,440	\$ 409,900
Liabilities				
Accounts payable	\$ 4,090	\$ 33,904	\$ 33,166	\$ 4,828
Amounts held for others	194,189	2,008,034	1,797,151	405,072
Total Liabilities	\$ 198,279	\$ 2,041,938	\$ 1,830,317	\$ 409,900

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CITY OF LYNCHBURG, VIRGINIA

Discretely Presented Component Unit – Lynchburg City Schools
As of June 30, 2007

Discretely Presented Component Unit – Lynchburg City Schools:

The Lynchburg City Schools operates one pre-school, eleven elementary, one special education, three middle, and two high schools in the City. The funds and account groups of the schools are described below:

- School Operating Fund – Accounts for the primary operating activities of the Lynchburg City Schools.
- School Federal Aid Projects Fund – Accounts for the various federal and state grants for the educational purposes of the Lynchburg City Schools. Also accounts for the activities of the Central Virginia Governor’s School for Science and Technology, a regional program supported by the City of Lynchburg and four surrounding counties, for which Lynchburg City Schools serves as fiscal agent.
- School Cafeteria Fund – Accounts for revenues received from the sale of food in the Lynchburg City Schools.
- Permanent Fund – Accounts for funds invested with the Greater Lynchburg Community Trust for the support of education.

Discretely Presented Component Unit - Lynchburg City Schools
Combining Balance Sheet
June 30, 2007

	<u>School Operating</u>	<u>School Federal Aid</u>	<u>School Cafeteria</u>	<u>Total Government</u>
Assets				
Cash and cash equivalents	\$ 10,880,430	\$ 108,234	\$ 1,372,452	\$ 12,361,116
Cash and cash equivalents, restricted	509,650	-	-	509,650
Receivables, net	281,727	-	-	281,727
Due from other funds	912,716	-	105,400	1,018,116
Due from other governments	1,604,216	1,730,149	-	3,334,365
Inventory	-	-	86,063	86,063
Total assets	<u>\$ 14,188,739</u>	<u>\$ 1,838,383</u>	<u>\$ 1,563,915</u>	<u>\$ 17,591,037</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 582,827	\$ 76,363	\$ 8,460	\$ 667,650
Due to other funds	105,400	912,716	-	1,018,116
Due to primary government	2,612,741	-	-	2,612,741
Deferred revenue	755,613	34,240	-	789,853
Accrued liabilities	8,890,483	544,604	7,720	9,442,807
Total liabilities	<u>12,947,064</u>	<u>1,567,923</u>	<u>16,180</u>	<u>14,531,167</u>
Fund balances:				
Reserved for:				
Encumbrances	732,025	9,686	-	741,711
Capital projects	509,650	-	-	509,650
Inventory	-	-	86,063	86,063
Unreserved:				
Undesignated	-	260,774	1,461,672	1,722,446
Total fund balances	<u>1,241,675</u>	<u>270,460</u>	<u>1,547,735</u>	<u>3,059,870</u>
Total liabilities and fund balances	<u>\$ 14,188,739</u>	<u>\$ 1,838,383</u>	<u>\$ 1,563,915</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				2,144,932
Receivables on the statement of net assets that do not provide current financial resources are reported as deferred revenue in the funds.				755,613
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.				(2,892,790)
Net assets of governmental activities				<u>\$ 3,067,625</u>

Discretely Presented Component Unit - Lynchburg City Schools
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2007

	School Operating	School Federal Aid	School Cafeteria	Total Governmental
Revenues				
Intergovernmental	\$ 78,033,072	\$ 6,617,140	\$ 2,191,362	\$ 86,841,574
Revenue from use of money and property	31,600	-	10,966	42,566
Charges for services	1,344,909	539,898	831,727	2,716,534
Miscellaneous	159,662	73,944	5,094	238,700
Total revenues	79,569,243	7,230,982	3,039,149	89,839,374
Expenditures				
Education:				
Instruction	60,849,179	6,254,009	-	67,103,188
Administration, attendance and health	2,821,351	156,296	-	2,977,647
Pupil transportation services	4,112,219	-	-	4,112,219
Operations and maintenance	10,086,015	39,365	2,681,263	12,806,643
Capital outlay	1,373,409	557,808	86,493	2,017,710
Debt service:				
Principal retirement	867,874	-	-	867,874
Interest payments	80,702	-	-	80,702
Total expenditures	80,190,749	7,007,478	2,767,756	89,965,983
Excess (deficiency) of revenues over expenditures	(621,506)	223,504	271,393	(126,609)
Other Financing Sources				
Capital lease proceeds	1,000,000	-	-	1,000,000
Net change in fund balances	378,494	223,504	271,393	873,391
Fund balance - beginning	863,181	46,956	1,276,342	
Fund balance - ending	\$ 1,241,675	\$ 270,460	\$ 1,547,735	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$637,726) exceeded depreciation expense (\$484,215).	153,511
Compensated absences are not due and payable at June 30 and, therefore, are not reported in the fund statements.	(60,987)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(13,328)
The issuance of long term debt (e.g. capital leases) provides current financial resources to governmental funds, but has no effect on net assets.	(1,000,000)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.	867,874
Change in net assets of governmental activities.	\$ 820,461

Discretely Presented Component Unit - Lynchburg City Schools
School Operating Fund
Schedule of Revenues, Expenditures, and Other Financing Sources (Uses)
Budget and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts			Variance
	Original	Final	Actual	Positive (Negative)
Revenues				
Intergovernmental	\$ 79,527,623	\$ 80,450,134	\$ 80,645,813	\$ 195,679
Revenue from use of money and property	-	-	31,600	31,600
Charges for services	585,500	585,500	1,344,909	759,409
Miscellaneous	274,500	274,500	159,662	(114,838)
Total revenues	80,387,623	81,310,134	82,181,984	871,850
Expenditures				
Education:				
Instruction	63,096,191	65,707,380	60,849,179	4,858,201
Administration, attendance and health	3,003,167	4,013,299	2,821,351	1,191,948
Pupil transportation services	4,644,562	4,700,562	4,112,219	588,343
Operations and maintenance	9,712,410	10,082,354	10,086,015	(3,661)
Capital outlay	-	-	1,373,409	(1,373,409)
Debt service	931,293	931,293	948,576	(17,283)
Total expenditures	81,387,623	85,434,888	80,190,749	5,244,139
Excess (deficiency) of revenues over expenditures	(1,000,000)	(4,124,754)	1,991,235	6,115,989
Other Financing Sources				
Capital lease proceeds	1,000,000	1,000,000	1,000,000	-
Net change in fund balances	\$ -	\$ (3,124,754)	2,991,235	\$ 6,115,989
Less return of funds to the City			(2,612,741)	
			<u>\$ 378,494</u>	

Discretely Presented Component Unit - Lynchburg City Schools
Agency Fund
For the Year Ended June 30, 2007

	<u>Agency Fund</u>
Assets	
Investments	<u>\$ 111,094</u>
Liabilities	
Amounts held for others	<u>\$ 111,094</u>

**Combining Statement of Net Assets
Other Component Units
June 30, 2007**

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 571,915	\$ -	\$ 571,915
Receivables (net of allowance for uncollectibles)	567,374	28,591	595,965
Due from primary government	-	242,582	242,582
Due from other governments	-	228,307	228,307
Prepaid and other assets	-	14,864	14,864
Inventory	-	170,973	170,973
Capital assets:			
Non-depreciable	-	55,031	55,031
Depreciable	12,596	2,594,151	2,606,747
Total assets	1,151,885	3,334,499	4,486,384
Liabilities			
Current liabilities:			
Accounts payable and other current liabilities	637,304	165,863	803,167
Notes payable, bank	-	450,000	450,000
Due to primary government	145,000	-	145,000
Total current liabilities	<u>782,304</u>	<u>615,863</u>	<u>1,398,167</u>
Noncurrent liabilities:			
Compensated absences	-	61,947	61,947
Total noncurrent liabilities	<u>-</u>	<u>61,947</u>	<u>61,947</u>
Total liabilities	782,304	677,810	1,460,114
Net assets			
Invested in capital assets, net of related debt	12,596	2,649,182	2,661,778
Net assets, unrestricted	<u>356,985</u>	<u>7,507</u>	<u>364,492</u>
Total net assets	\$ 369,581	\$ 2,656,689	\$ 3,026,270

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Other Component Units
For the Year Ended June 30, 2007

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Operating revenues			
Charges for services and other operating revenues	\$ 231,002	\$ 951,476	\$ 1,182,478
Total operating revenues	<u>231,002</u>	<u>951,476</u>	<u>1,182,478</u>
Operating expenses			
Operations	362,393	3,975,234	4,337,627
Administration	8,462	987,679	996,141
Maintenance and repairs	26,653	1,389,905	1,416,558
Total operating expenses	<u>397,508</u>	<u>6,352,818</u>	<u>6,750,326</u>
Operating loss	<u>(166,506)</u>	<u>(5,401,342)</u>	<u>(5,567,848)</u>
Nonoperating revenue (expense)			
Operating funds from City of Lynchburg	-	1,252,311	1,252,311
Operating funds from Counties	-	32,078	32,078
Operating funds from Liberty University	-	389,056	389,056
Donations and grants	156,858	2,226,688	2,383,546
Miscellaneous revenue (expense)	-	(1,407)	(1,407)
Gain (loss) on sale of property and equipment	-	(259)	(259)
Total nonoperating revenue (expense)	<u>156,858</u>	<u>3,898,467</u>	<u>4,055,325</u>
Capital contributions	-	976,325	976,325
Change in net assets	<u>(9,648)</u>	<u>(526,550)</u>	<u>(536,198)</u>
Total net assets - beginning	<u>379,229</u>	<u>3,183,239</u>	<u>3,562,468</u>
Total net assets - ending	<u>\$ 369,581</u>	<u>\$ 2,656,689</u>	<u>\$ 3,026,270</u>

**Combining Statement of Cash Flows
Other Component Units
For the Year Ended June 30, 2007**

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Operating activities			
Cash received from operations	\$ 418,745	\$ 948,753	\$ 1,367,498
Cash paid to employees	(232,979)	(1,977,329)	(2,210,308)
Cash paid to suppliers for goods and services	(217,906)	(3,080,759)	(3,298,665)
New loans disbursed	(178,000)	-	(178,000)
Net cash used in operating activities	(210,140)	(4,109,335)	(4,319,475)
Noncapital financing activities			
Subsidies	-	3,856,050	3,856,050
Operating grants and contributions	156,858	-	156,858
Net cash provided from noncapital financing activities	156,858	3,856,050	4,012,908
Capital and related financing activities			
Capital contributions	-	936,469	936,469
Net change in line of credit	-	111,789	111,789
Additions to capital assets	(10,789)	(839,980)	(850,769)
Miscellaneous revenue (expense)	-	(1,407)	(1,407)
Net cash provided from (used in) capital and related financing activities	(10,789)	206,871	196,082
Net decrease in cash and cash equivalents/investments	(64,071)	(46,414)	(110,485)
Cash and cash equivalents/investments			
Beginning of year	635,986	31,478	667,464
End of year	\$ 571,915	\$ (14,936)	\$ 556,979
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	\$ (166,506)	\$ (5,401,342)	\$ (5,567,848)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	4,220	1,334,522	1,338,742
Decrease (Increase) in receivables	(615)	(2,723)	(3,338)
Decrease (Increase) in prepaid expenses and other assets	-	(648)	(648)
Decrease (Increase) in inventory	-	(46,656)	(46,656)
Increase (Decrease) in accounts payable and other current liabilities	(20,424)	(2,342)	(22,766)
Increase in compensated absences	-	9,854	9,854
Decrease in amounts due to primary government	(26,815)	-	(26,815)
Net cash used in operating activities	\$ (210,140)	\$ (4,109,335)	\$ (4,319,475)
Supplemental cash flow information			
Non-cash capital and related financing activities:			
Decrease in accounts payable for capital assets	\$ -	\$ 46,719	\$ 46,719

SUPPLEMENTAL SCHEDULES

CITY OF LYNCHBURG, VIRGINIA

SCHEDULE 1

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

	Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Federal Expenditures
PRIMARY GOVERNMENT			
DEPARTMENT OF AGRICULTURE			
Passed through Commonwealth of Virginia:			
Department of Juvenile Justice:			
School Breakfast Program		10.553	\$ 58,060
National School Lunch Program		10.555	5,717
Department of Social Services:			
Food and Nutrition Service		10.560	77,562
Food Stamp Administration		10.561	795,483
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Commonwealth of Virginia:			
Department of Social Services:			
Family Preservation and Support		93.556	163,779
TANF Block Grant		93.558	1,104,305
Refugee and Entrant Assistance State - Administered Programs		93.566	811
Low Income Energy Assistance		93.568	76,963
Child Care Assistance		93.575	357,509
Child Care Development Fund		93.596	774,067
Chafee Education and Training Vouchers Program (ETV)		93.599	15,718
Social Services Administration		93.645	218
Foster Care - Title IV-E		93.658	1,374,942
Adoption Assistance		93.659	430,364
Social Services Block Grant		93.667	814,073
Independent Living		93.674	75,777
Children's Insurance Program		93.767	1,238
Medicaid Assistance		93.778	706,437
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed through Commonwealth of Virginia:			
AmeriCorps		94.006	4,841
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Payments:			
Community Development Block Grant Program, Entitlement Grants		14.218	1,221,020
Shelter Plus Care		14.238	58,797
Home Investment Partnership Program		14.239	481,145
Lead Hazard Control		14.900	876,982
DEPARTMENT OF JUSTICE			
Direct Payments:			
Young Juvenile Offender		15.540	66,180
Domestic Violence Block Grant		16.530	271,189
Bulletproof Vest Partnership		16.607	18,508
Community Prosecution and Project Safe Neighborhoods		16.609	141,662
Passed through Commonwealth of Virginia:			
Department of Criminal Justice Services:			
Juvenile Accountability Incentive Block Grant		16.523	9,000
Victim-Witness Services		16.575	177,976
Byrne Formula Grant - Drug Control and Systems Improvements		16.579	7,240
COPS Inerrability		16.710	2,690
DEPARTMENT OF LABOR			
Passed through Commonwealth of Virginia:			
Employment and Training Administration:			
WIA Adult Program		17.258	415,803
WIA Youth Activities		17.259	376,815
WIA Dislocated Workers		17.260	310,418

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

(Continued)

	Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Federal Expenditures
FEDERAL AVIATION ADMINISTRATION			
Direct Payments:			
Department of Aviation:			
Airport Improvement Program		20.106	\$ 7,900,823
DEPARTMENT OF TRANSPORTATION			
Passed through Commonwealth of Virginia:			
Department of Motor Vehicles:			
Alcohol Impaired Driving Grants		20.600	13,875
ENVIRONMENTAL PROTECTION AGENCY			
Passed through Commonwealth of Virginia:			
Virginia Resources Authority:			
Revolving Loan		66.458	5,003,358
EPA Grant		66.606	43,700
FEDERAL EMERGENCY MANAGEMENT AGENCY			
Passed through Commonwealth of Virginia:			
Department of Emergency Services:			
Homeland Security		97.073	36,578
<u>COMPONENT UNIT - LYNCHBURG SCHOOLS</u>			
DEPARTMENT OF AGRICULTURE			
Passed through Commonwealth of Virginia:			
Department of Education:			
National School Lunch Program		10.555	1,705,649
National School Breakfast Program		10.553	500,365
DEPARTMENT OF EDUCATION			
Passed through Commonwealth of Virginia:			
Adult Education State Grant Program		84.002	112,036
Title I - Educationally Deprived Children - LEA		84.010	3,540,703
Title I - Neglected and Delinquent Children		84.013	5,922
Emergency Impact Aid for Displaced Students		84.938	20,171
Elementary and Secondary Education Act (ESEA):			
Title IV-B - Elementary and Secondary Education Act of 1965		84.287	21,923
Title VI - Innovative Education Program Strategies		84.298	59,652
Title VI-B - Special Education		84.027	2,123,689
Special Education Preschool Grants		84.173	53,793
Technology Literacy Challenge Fund Grants		84.318	41,658
Advanced Placement Programs (Title I, Part G)		84.330	2,028
English Language Acquisition Grants		84.365	35,713
Title II - Part A Funds		84.367	673,477
Post Secondary Education Programs:			
Title IV - Higher Education Act		84.334	46,720
Vocational Education:			
Basic Grants to States		84.048	252,302
Drug Free Schools and Communities		84.186	88,637
Even Start		84.213	3,638
McKenney-Vento Homeless Education Assistance Improvements Act of 2001:			
Title X-C -No Child Left Behind Act		84.000	32,458
DEPARTMENT OF MEDICAL ASSISTANCE SERVICES			
Passed through Commonwealth of Virginia:			
Medicaid (Buy-In) Infrastructure Grant		93.000	96,300
TOTAL			\$ 33,688,457

CITY OF LYNCHBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
As of June 30, 2007

Note 1. Significant Accounting Policy

Basis of Accounting:

The accompanying schedule of federal awards is prepared on the modified accrual basis of accounting.

Note 2. Business Development Centre, Inc. – Revolving Loan Fund

The Centre administers the Economic Development Administration Special Economic Adjustment Assistance Revolving Loan Fund Program CFDA 11.307 (01-49-03245) on behalf of the City of Lynchburg. Loans under this program are subject to various restrictions as determined by the Economic Development Administration.

The Centre received the funds indicated as follows through the fiscal year ended June 30, 1998. No funds have been received since that date.

	Federal	State	Local
Amount received through June 30, 1993	\$ 45,000	\$ -	\$ 24,000
Amount received through June 30, 1994	127,836	-	33,612
Amount received through June 30, 1995	44,027	-	14,676
Amount received through June 30, 1996	108,201	-	36,067
Bad debt charge off for the year ended June 30, 1996	(3,005)	-	(1,002)
Amount received through June 30, 1997	10,268	-	3,423
Recapitalized from earnings for the year ended June 30, 1997	3,005	-	1,002
Amount received through June 30, 1998	159,668	40,000	13,222
	<u>\$ 495,000</u>	<u>\$ 40,000</u>	<u>\$ 125,000</u>

Note 3. Non-monetary Assistance

Non-monetary assistance is reported in the Schedule of Federal Awards at the fair market value of the food commodities.

CITY OF LYNCHBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
As of June 30, 2007

Note 4. Subgrantees

The federal expenditures for the Community Development Block Grant, the Home Investment Partnership, and the Workforce Investment Act Cluster programs include grants to subrecipients as follows:

Subrecipient	Community Development Block Grant	Home Investment Partnership Act	Workforce Investment Act Cluster
Amazement Square Museum	\$ 5,000	\$ -	\$ -
Bethune Nursery School	40,886	-	-
Camp Kum-Ba-Yah	12,500	-	-
College Hill Neighborhood	5,179	-	-
Dance Theatre of Lynchburg	22,935	-	-
Dominion Sports	9,000	-	-
Greater Lynchburg Habitat	-	36,000	-
Interfaith Outreach	13,232	-	-
Legacy Project	32,570	-	-
Lynchburg Community Action Group	222,097	235,898	-
Lynchburg Literacy Council	2,000	-	-
Lynchburg Neighborhoods	2,971	170,345	-
Lynchburg Redevelopment & Housing Authority	438,016	-	-
Miriam's House	20,000	-	-
New Land Industries	10,000	-	-
Rebuilding together with Christmas in April	37,589	-	-
Rush Lifetime Homes	6,457	-	-
VA University of Lynchburg	20,000	-	-
White Rock Hill Neighborhood	17,219	-	-
YWCA	37,822	-	-
Region 2000 Local Governmental Council	-	-	1,103,036
	\$ 955,473	\$ 442,243	\$ 1,103,036

Note 5. Program Income

In accordance with terms of the Community Development Block Grant Program, program income totaling \$82,376 was used to reduce the amount of federal funds in conjunction with the program's objective.

Note 6. Virginia Revolving Loan Fund (CFDA 66.458)

At June 30, 2007, the City had an outstanding loan balance through the Virginia Revolving Loan Fund in the amount of \$74,984,763, which includes \$ 26,064,857 of federal funds.

SCHEDULE 2**CITY OF LYNCHBURG, VIRGINIA**Schedule of Passenger Facility Charges
As of June 30, 2007

Passenger Facility Charges:

<u>Federal Agency/Program Name/Application Number</u>	<u>PFC Balance July 1, 2006</u>	<u>PFC Collected</u>	<u>Interest Earnings</u>	<u>Expenditures</u>	<u>PFC Balance June 30, 2007</u>
<u>FEDERAL AVIATION ADMINISTRATION</u>					
Passenger facility charges (05-04-C-00-LYH)	<u>\$ 312,049</u>	<u>\$ 225,131</u>	<u>\$ 15,514</u>	<u>\$ 550,929</u>	<u>\$ 1,765</u>
	<u><u>\$ 312,049</u></u>	<u><u>\$ 225,131</u></u>	<u><u>\$ 15,514</u></u>	<u><u>\$ 550,929</u></u>	<u><u>\$ 1,765</u></u>

SCHEDULE 3**CITY OF LYNCHBURG, VIRGINIA**Schedule of Expenditures of Passenger Facility Charges
As of June 30, 2007

Expenditures of Passenger Facility Charges:

<u>Project</u>	<u>PFC Expenditures</u>
<u>Application 4 (05-04-C-00-LYH)</u>	
Local share reimbursement (non-AIP) PFC development and administrative costs	\$ 5,707
Local share reimbursement (AIP-29) Runway 4-22 extension, (construction)	<u>545,222</u>
Total PFC expenditures	<u>\$ 550,929</u>

The accompanying schedule of expenditures of passenger facility charges includes the passenger facility charge activity of the City, and is presented on the cash basis of accounting. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in preparation of, the basic financial statements.

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STATISTICAL SECTION

STATISTICAL SECTION

This section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information indicates about the government's overall financial condition.

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MISCELLANEOUS STATISTICAL DATA

83-87

This section provides additional information about the City, form of government, taxable subjects for local taxation, City's Fund Balance, Debt Management, Budget, and Investment policies.

FINANCIAL TRENDS

88-99

Tables 1-11 contain trend information to help the reader understand how the City's financial performance and well-being have changed over the time.

REVENUE CAPACITY

Tables 12-17 contain information to help the reader assess the City's most significant local revenue sources, property taxes. **100-105**

DEBT CAPACITY

Tables 18-21 present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future. **106-109**

DEMOGRAPHIC AND ECONOMIC INDICATORS

Tables 22-23 offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place. **110-111**

OPERATING INFORMATION

Tables 24-27 contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services it provides and the activities it performs. **112-115**

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City of Lynchburg implemented GASB Statement 34 in fiscal year 2002; schedules presenting government-wide information include information beginning in that year. In addition, certain tables show information starting in 2002, this is the first year of reporting the specified information with the goal of future reporting to include ten (10) years.

CITY OF LYNCHBURG, VIRGINIA
MISCELLANEOUS STATISTICAL DATA
June 30, 2007

DATE OF INCORPORATION

Lynchburg was founded by John Lynch in 1757, established as a town in October 1786, incorporated as a town on January 10, 1805 and received independent city status in 1852.

AREA OF CITY

The area of the City consists of 50.107 square miles.

POPULATION

United States Census 1990 (1).....	69,900
United States Census 2000 (1).....	65,269
United States Census 2005 (1).....	67,756
United States Census 2006 (1).....	68,758

(1) Source: Weldon Cooper Center for Public Service,
www.coopercenter.org

FORM OF GOVERNMENT

Lynchburg is organized under the Council – Manager form of government. The City Council, comprised of seven members, is elected on either an at-large (3 members) or ward (4 members) representative basis for four-year staggered terms of office. From among the elected City Council members, they choose on or near July 1 of each election year by simple majority vote a Mayor, who serves a two-year term.

Appointed by the City Council, the City Manager serves as the chief administrative officer of the municipal corporation. The City Manager performs the City's administrative and policy-related duties, directs business procedures and has the power of appointment and removal of the heads of all administrative departments as well as other employees of the City. The City Manager's primary focus is on helping Council set priorities, interpreting City Council's actions to the appropriate department, outside organizations and citizens, and providing professional leadership in executing the adopted policies of City Council.

SEGREGATION OF TAXABLE SUBJECTS FOR LOCAL TAXATION ONLY

By an Act of the General Assembly of Virginia, approved March 31, 1926, all real estate, tangible personal property, and machinery used for manufacturing purposes, were segregated to the City, and these subjects are not liable to any general tax except the City tax.

ASSESSMENTS

The City Assessor of Real Estate appraises the market value of real estate on a biannual assessment cycle. The entire City is reviewed every other year (with values effective the first day of July of the odd years) and adjustments are made where necessary based upon market evidence indicating a change in the value.

The Commissioner of the Revenue is required by law to assess vehicles and motorcycles by means of a recognized pricing guide. For most other personal property, the assessed value is based on a percentage of original cost.

CITY OF LYNCHBURG, VIRGINIA
MISCELLANEOUS STATISTICAL DATA
June 30, 2007
(Continued)

TAX RATES

The Commissioner of Revenue, as required by the *Code of Virginia*, assesses tangible personal property and machinery and tools. The City prorates personal property on a monthly basis.

Real Estate:

- \$1.11 per \$100 assessed value: 1998 – 2007
- \$1.13 per \$100 assessed value: 1997
- \$1.16 per \$100 assessed value: 1995-1996
- \$1.18 per \$100 assessed value: 1990-1994

Tangible Personal Property:

- \$3.80 per \$100 assessed value: 2005-2007
- \$3.30 per \$100 assessed value: 1990-2004

Machinery and Tools:

- \$3.00 per \$100 assessed value: 1990-2007

Local Sales Tax:

- 1% + 4.0% VA tax: 2004-2007
- 1% + 3.5% VA tax: 1998-2003

Utility Consumers' Tax:

- Electricity:
 - Residential – the greater of: \$0.0046 for the first 1,000 kwh (or a fraction thereof) plus \$0.0026 for each kwh over the first 1,000 kwh, or 7% of the minimum monthly charge.
 - Commercial – the greater of: \$0.0048 for the first 1,000 kwh (or a fraction thereof) plus \$0.0092 for each kwh over the first 1,000 kwh, or 7% of the minimum monthly charge.
 - Industrial – the greater of: \$0.00375 for the first 1,000 kwh (or a fraction thereof) plus \$0.0026 for each kwh over the first 1,000 kwh, or 7% of the minimum monthly charge.
- Telephone (land line):
 - 7% of the total bill excluding long distance
 - This tax is no longer levied by the City due to the new Communication Sales & Use Tax established by the General Assembly in 2006 with an effective date of January 1, 2007.
- Telephone (cellular):
 - 10% of the first \$ 30, or \$3.00
 - This tax is no longer levied by the City due to the new Communication Sales & Use Tax established by the General Assembly in 2006 with an effective date of January 1, 2007.

CITY OF LYNCHBURG, VIRGINIA

MISCELLANEOUS STATISTICAL DATA

June 30, 2007

(Continued)

TAX RATES

(Continued)

Business, Professional, and Occupational License:

For Business with Gross Receipts/Purchases Exceeding Threshold:

- Threshold
 - Receipts/Purchases \$10,000 and less – No fee
 - Receipts/Purchases \$10,001 - \$50,000 - \$30 flat fee
 - Receipts/Purchases \$50,001 - \$100,000 - \$50 flat fee
- Contractors - \$0.16 per \$100 of gross receipts
- Retail Merchants - \$0.20 per \$100 of gross receipts
- Wholesale Merchants - \$0.28 per \$100 of gross receipts plus \$20 fee when gross purchases are over \$100,000
- Repair, Personal, and Business Services - \$0.36 per \$100 of gross receipts
- Financial Real Estate and Professional Services - \$0.58 per \$100 of gross receipts

Motor Vehicle License:

- \$29.50 for vehicles weighing 4,000 pounds or less: 2004-2007
- \$34.50 for vehicles weighing greater than 4,000 pounds: 2004-2007
- \$25.00 for all types of vehicles: 1990-2003

Tobacco Tax:

- \$0.35 on pack of twenty cigarettes: 2004-2007
- \$0.15 on pack of twenty cigarettes: 1990-2003

Lodging Tax:

- A tax of 5.5% of the charge made for each room rented per night. In FY 2001, Lynchburg changed the lodging tax from 5.5% to 5.5% plus \$1 per room per night. Of the total lodging taxes, 36% is allocated for tourism.

Meals Tax:

- A tax of 6.5% on prepared meals sold in the City in addition to Sales Tax. In FY 2004, Lynchburg changed the meals tax from 6.0% to 6.5%.

Ambulance Services:

- Basic Life Services – for the incidents classified as an emergency, the charge is \$350 and an additional \$8 for each mile the patient is transported. If it is classified as a non-emergency, the charge is \$325.
- Advanced Life Support – for the incidents classified as an emergency, the fee is \$450; non-emergency - \$425.
- A fee of \$575 is charged if three or more different medications combined with at least one Advanced Life Support procedure are administered.

TAXES DUE

Real estate taxes are assessed as of the first day of July every other year. Supplemental real estate taxes are levied in June to reflect construction in progress during the fiscal year with a tax due date in August. Real estate taxes are payable in four quarterly installments on November 15, January 15, March 15, and May 15. If paid thereafter, a 10% penalty and interest at the rate of 10% per annum is added.

Personal property taxes are payable in two equal installments on June 5 and December 5. Additional billings for personal property acquisitions are due March 5 and September 5.

(Continued)

CITY OF LYNCHBURG, VIRGINIA
MISCELLANEOUS STATISTICAL DATA
June 30, 2007
(Continued)

DELINQUENT TAXES

Real estate and personal property taxes are reported delinquent the day after the due date. Therefore, the day after each installment due date, if the taxes are unpaid, they are considered delinquent.

OVERLAPPING AREAS AND DEBT

The City of Lynchburg is autonomous and entirely independent of any county or any other political subdivision of the state, being a separate and distinct political unit since 1852.

It is not coterminous with, nor subject to any county or school district taxation, and is not liable for any indebtedness other than its own. It has the power to levy taxes on all real and tangible personal property without limitation of rate or amount.

FUND BALANCE POLICY

The City council adopted a resolution in 1999 that was reaffirmed in 2006, which established major policy goal of maintaining the Undesignated General Balance at a level to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The Fund Balance Policy states:

- The City will maintain a minimum Undesignated General Fund Balance equal to 10% of General Fund revenues. In the event the Undesignated General Fund Balance is used to provide for temporary funding of unforeseen emergency needs, the City shall restore the Undesignated General Fund Balance to the minimum of 10% over five fiscal years.
- The City shall not use the Undesignated General Fund Balance to finance recurring operating expenditures.
- Funds in excess of the targeted 10% fund balance may be considered to supplement “pay-as-you-go” capital outlay expenditures, other non-recurring expenditures or as additions to fund balance.

DEBT MANAGEMENT POLICY

The City council adopted a resolution on August 10, 1999, which was revised in 2006 establishing guidelines for the planning, issuance and management of debt, for and on behalf of City of Lynchburg. The City will issue debt for the purpose of acquiring or constructing capital projects and for making major renovations to existing capital projects. The City shall comply with all its undertakings in accordance with Securities and Exchange Commission Rule 15c2-12 and will follow the Government Finance Officers’ Association and Securities and Exchange Commission requirements for continuing disclosure. Two types of debt obligations are used by the City:

- Tax supported obligations are those that are expected to be repaid from the General Fund tax revenue of the City of Lynchburg. These include general obligation bonds (except self-supporting bonds) and capital leases. General obligation bonds issued for self-supporting enterprise funds are not included in calculations of tax-supported bonds.
- Revenue-supported obligations are those for which the debt service is payable solely from the revenue generated from the operation of the project being financed or a category of facilities (i.e. water, sewer, solid waste). These are not considered tax-supported debt of the City.

The City may use the Virginia Public School Authority (VPSA) or State Literary Fund loans to finance school capital projects. City bonds sold to the VPSA and Literary Fund loans constitute general obligation debt of the City. City Council shall approve any application to the VPSA or the Department of Education for a Literary Fund loan. City Council shall approve the issuance of the bonds as required by the Public Finance Act. The School Board shall recommend such financings before a proposed financing is brought to City Council for approval.

CITY OF LYNCHBURG, VIRGINIA
MISCELLANEOUS STATISTICAL DATA
June 30, 2007
(Continued)

BUDGET POLICY

The City council adopted a resolution November 14, 2000 which was revised in 2006.

Principles

- Public participation in the budgetary process will be encouraged.
- The City will avoid dedicating revenue to a specific project or program because of the constraint this may place on flexibility in resource allocation except in instances where programs are expected to be self-sufficient or where revenue is dedicated to a program for statutory or policy reasons.
- The budget process will be coordinated in a way that major policy issues are identified for City Council several months prior to consideration of budget approval. This will allow adequate time for appropriate decisions and analysis of financial impacts.

QUARTERLY FINANCIAL REPORTING

The City Manager will present to the City Council's Finance Committee (with copies to the remainder of Council) quarterly financial reports identifying meaningful trends in revenues and expenditures for the General, Water and Sewer, Airport, Stadium, Comprehensive Services Act, Juvenile Detention, and Solid Waste Funds.

Third Quarter Review

In mid-March, City staff will evaluate all expenditures and revenues as compared to budget and make recommendations to City Council regarding possible adjustments. Section 15.2-2507 of the *Code of Virginia* requires that a public hearing be held prior to City Council action when the potential increases in the appropriation are greater than \$500,000 or one percent of revenues.

INVESTMENT POLICY

The City council adopted an investment policy on September 25, 2001, which was revised in 2006 establishing specific requirements or limitations imposed upon the investment of Bond Proceeds, Debt Service Funds and Debt Service Reserve Funds. It is the policy of the City of Lynchburg that the investment and administration of its funds be made in accordance with the Code of Virginia Investment of Public Funds Act, the applicable provisions of any outstanding bond indebtedness, and this policy. It is the intent of the City to be in complete compliance with all applicable federal, state and local laws, and other regulations and statutes governing the investment of public funds. Within those parameters, the goal of this policy is to achieve the highest rate of return that is reasonable. The City will establish an Investment Committee consisting of the City Manager, Deputy City Manager, and Director of Financial Services. This Committee will provide broad policy oversight over investments. This policy will be reviewed on an annual basis. Any changes must be approved by the Investment Committee and be reaffirmed by City Council.

**NET ASSETS BY COMPONENT,
LAST SIX FISCAL YEARS**
(accrual basis of accounting)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Governmental Activities						
Invested in capital assets, net of related debt	\$ 127,767,609	\$ 130,892,517	\$ 135,832,636	\$ 140,548,447	\$ 139,205,720	\$ 139,856,317
Restricted	5,212,611	55,409	-	-	171,844	-
Unrestricted	20,948,687	30,244,439	32,330,375	33,754,620	46,486,579	56,819,180
Total governmental activities net assets	<u>\$ 153,928,907</u>	<u>\$ 161,192,365</u>	<u>\$ 168,163,011</u>	<u>\$ 174,303,067</u>	<u>\$ 185,864,143</u>	<u>\$ 196,675,497</u>
Business-type activities						
Invested in capital assets, net of related debt	\$ 106,057,802	\$ 105,589,397	\$ 112,022,931	\$ 119,234,122	\$ 125,543,179	\$ 134,385,674
Restricted	1,055,706	7,184,652	-	-	-	1,765
Unrestricted	14,399,615	15,561,278	22,972,124	26,928,368	29,667,849	35,582,153
Total business-type activities net assets	<u>\$ 121,513,123</u>	<u>\$ 128,335,327</u>	<u>\$ 134,995,055</u>	<u>\$ 146,162,490</u>	<u>\$ 155,211,028</u>	<u>\$ 169,969,592</u>
Primary government						
Invested in capital assets, net of related debt	\$ 233,825,411	\$ 236,481,914	\$ 247,855,567	\$ 259,782,569	\$ 264,748,899	\$ 274,241,991
Restricted	6,268,317	7,240,061	-	-	171,844	1,765
Unrestricted	35,348,302	45,805,717	55,302,499	60,682,988	76,154,428	92,401,333
Total primary government net assets	<u>\$ 275,442,030</u>	<u>\$ 289,527,692</u>	<u>\$ 303,158,066</u>	<u>\$ 320,465,557</u>	<u>\$ 341,075,171</u>	<u>\$ 366,645,089</u>

Source: Director of financial services, City of Lynchburg, Virginia

**CHANGES IN NET ASSETS,
LAST SIX FISCAL YEARS**
(accrual basis of accounting)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Expenses						
Governmental Activities:						
General Government	\$ 13,407,536	\$ 15,127,680	\$ 9,474,943	\$ 10,120,602	\$ 11,727,655	\$ 12,148,875
Judicial	3,455,684	3,846,581	4,336,165	4,717,917	5,099,725	5,471,591
Public Safety	28,899,317	28,911,487	33,858,886	35,823,077	39,639,402	40,397,195
Public Works	17,930,578	20,819,441	17,638,226	18,764,769	20,760,247	19,643,233
Health and Human Services	19,122,950	19,704,149	20,391,462	21,328,976	20,095,986	23,439,351
Culture and Recreation	2,098,535	4,262,645	7,895,722	8,195,390	8,943,345	9,432,337
Community Development	6,403,903	5,298,688	10,373,473	6,375,560	6,469,555	6,759,110
Education	39,746,612	28,371,163	27,680,572	28,638,013	32,618,426	33,539,288
Interest and Fiscal Changes	2,334,975	4,230,625	3,520,381	4,634,912	4,999,355	5,444,098
Non-departmental	3,327,441	2,806,878	-	-	-	-
Issuance Cost	-	-	-	192,828	173,943	-
Total governmental activities expenses	136,727,531	133,379,337	135,169,830	138,792,044	150,527,639	156,275,078
Business-type activities:						
Solid Waste Management	4,805,161	5,488,691	6,902,366	5,794,660	5,599,954	6,436,950
Airport	3,178,673	3,118,741	3,623,207	3,405,121	3,505,550	3,545,346
Water	8,052,358	7,855,213	8,859,383	8,743,519	9,273,940	9,846,038
Sewer	10,677,119	11,093,129	13,165,634	11,800,236	12,431,230	12,757,627
Total business-type activities expenses	26,713,311	27,555,774	32,550,590	29,743,536	30,810,674	32,585,961
Total primary government expenses	\$ 163,440,842	\$ 160,935,111	\$ 167,720,420	\$ 168,535,580	\$ 181,338,313	\$ 188,861,039
Program Revenues (see Table 3)						
Governmental Activities:						
Charges for services:						
General Government	\$ 693,327	\$ 284,055	\$ 416,760	\$ 401,099	\$ 935,539	\$ 398,188
Culture and Recreation	530,239	517,625	1,350,148	1,675,398	1,810,243	1,888,695
Other Activities	8,624,034	6,606,236	5,767,254	7,025,208	8,623,762	8,931,986
Operating Grants and Contributions	26,702,238	28,241,733	34,083,736	29,927,625	31,517,020	33,925,919
Capital Grants and Contributions	3,014,959	3,353,102	2,062,659	4,119,640	2,435,928	2,217,419
Total governmental activities program services	39,564,797	39,002,751	43,680,557	43,148,970	45,322,492	47,362,207
Business-type activities:						
Charges for services:						
Solid Waste Management	4,842,010	5,459,258	6,352,423	6,985,739	7,219,229	7,276,645
Airport	1,187,905	1,586,178	1,480,543	1,637,730	1,762,826	1,848,109
Water	8,312,263	8,607,032	9,001,806	9,488,676	10,352,303	10,397,780
Sewer	12,705,123	13,932,357	13,919,612	14,682,219	15,405,174	16,040,587
Operating Grants and Contributions	508,357	423,729	272,894	311,173	415,801	398,850
Capital Grants and Contributions	7,602,178	3,982,334	7,203,733	5,562,333	3,066,896	8,918,563
Total business-type activities program revenues	35,157,836	33,990,888	38,231,011	38,667,870	38,222,229	44,880,534
Total primary government program revenues	\$ 74,722,633	\$ 72,993,639	\$ 81,911,568	\$ 81,816,840	\$ 83,544,721	\$ 92,242,741
Net (Expense) Revenue						
Governmental Activities	\$ (97,162,734)	\$ (94,376,586)	\$ (91,489,273)	\$ (95,643,074)	\$ (105,205,147)	\$ (108,912,871)
Business-type Activities	8,444,525	6,435,114	5,680,421	8,924,334	7,411,555	12,294,573
Total Primary Government Net Expenses	\$ (88,718,209)	\$ (87,941,472)	\$ (85,808,852)	\$ (86,718,740)	\$ (97,793,592)	\$ (96,618,298)

(Continued)

TABLE 2
(Continued)

CITY OF LYNCHBURG, VIRGINIA

CHANGES IN NET ASSETS (CONTINUED)
LAST SIX FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
General Revenues and Other Changes in Net Assets						
Governmental Activities:						
Taxes						
Property taxes	\$ 44,751,894	\$ 43,783,096	\$ 47,696,680	\$ 49,831,096	\$ 60,191,431	\$ 57,241,907
Local sales and use taxes	11,905,178	11,027,631	11,528,820	12,221,811	13,319,691	14,481,096
Meals taxes	6,924,931	6,984,195	7,561,387	8,666,117	9,423,830	10,000,796
Consumer utility taxes	6,183,638	6,826,740	6,892,926	8,397,849	6,840,948	5,835,367
Business license taxes	6,561,439	6,712,152	6,507,848	7,032,917	7,675,284	7,922,666
Communications sales and use tax	-	-	-	-	-	1,669,968
Other taxes	5,831,208	6,037,923	6,509,095	6,096,139	6,794,113	6,697,407
Unrestricted intergovernmental	8,627,063	8,961,598	8,450,138	8,405,457	9,434,886	9,687,718
Investment Earnings	987,575	613,103	235,434	954,317	1,785,705	3,082,813
Miscellaneous	2,775,382	3,008,299	1,234,747	1,090,845	1,605,259	1,919,538
Transfers	1,322,247	571,552	(217,924)	(469,136)	(304,924)	11,134
Loss on sale of assets	277,308	122,302	(22,450)	(705,032)	-	-
Total governmental activities	96,147,863	94,648,591	96,376,701	101,522,380	116,766,223	118,550,410
Business-type activities:						
Investment Earnings	852,564	952,358	340,736	582,522	1,248,981	2,382,245
Miscellaneous	72,254	196,873	331,018	105,329	83,078	92,880
Transfers	(1,322,247)	(571,552)	217,924	469,136	304,924	(11,134)
Loss on sale of assets	(15,141)	(190,589)	(334,742)	(363,989)	-	-
Total business-type activities	(412,570)	387,090	554,936	792,998	1,636,983	2,463,991
Total primary government	\$ 95,735,293	\$ 95,035,681	\$ 96,931,637	\$ 102,315,378	\$ 118,403,206	\$ 121,014,401
Changes in Net Assets						
Governmental activities	\$ (1,014,871)	\$ 272,005	\$ 4,887,428	\$ 5,879,306	\$ 11,561,076	\$ 9,637,539
Business-type activities	8,031,955	6,822,204	6,235,357	9,717,332	9,048,538	14,758,564
Total primary government	\$ 7,017,084	\$ 7,094,209	\$ 11,122,785	\$ 15,596,638	\$ 20,609,614	\$ 24,396,103

Source: Director of financial services, City of Lynchburg, Virginia

**PROGRAM REVENUES BY FUNCTION/PROGRAM,
LAST SIX FISCAL YEARS**
(accrual basis of accounting)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Function/Program						
Governmental Activities:						
General Government	\$ 1,026,760	\$ 577,940	\$ 716,128	\$ 726,708	\$ 785,105	\$ 734,876
Judicial	1,849,060	2,777,001	2,790,371	3,716,905	3,907,807	3,978,858
Public Safety	10,624,762	7,356,929	6,588,169	6,235,060	8,551,169	8,489,027
Public Works	10,057,326	8,854,787	7,557,688	8,821,426	9,246,609	9,143,028
Health and Human Services	10,973,496	13,065,116	15,501,010	15,273,759	15,728,602	17,439,083
Culture and Recreation	745,962	737,337	2,143,741	1,973,444	2,085,063	2,125,708
Community Development	4,226,879	4,004,873	7,060,174	3,114,730	3,658,669	3,239,533
Education	60,552	1,628,768	1,323,276	3,286,938	1,849,352	2,212,094
Subtotal governmental activities	39,564,797	39,002,751	43,680,557	43,148,970	45,812,376	47,362,207
Business-type activities:						
Solid Waste Management	5,040,888	5,650,297	6,554,259	7,185,377	7,423,363	7,478,380
Airport	2,689,846	2,554,723	4,004,944	3,213,025	3,468,328	10,159,028
Water	8,312,263	8,607,032	9,001,806	9,697,544	10,352,303	10,397,780
Sewer	19,114,839	17,178,836	18,670,002	18,571,924	16,978,235	16,845,346
Subtotal business-type activities	35,157,836	33,990,888	38,231,011	38,667,870	38,222,229	44,880,534
Total primary government	\$ 74,722,633	\$ 72,993,639	\$ 81,911,568	\$ 81,816,840	\$ 84,034,605	\$ 92,242,741

Source: Director of Financial Services, City of Lynchburg, Virginia.

CITY OF LYNCHBURG, VIRGINIA

TABLE 4

FUND BALANCES, GOVERNMENTAL FUNDS,
LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund										
Reserved	\$ 2,045,899	\$ 1,865,889	\$ 1,309,512	\$ 493,057	\$ 438,570	\$ 944,980	\$ 933,133	\$ 1,131,403	\$ 879,657	\$ 1,236,149
Unreserved	24,800,516	25,732,167	26,067,639	20,741,941	22,143,078	20,912,864	22,830,309	25,356,742	35,906,892	31,541,207
Total General Fund	<u>\$ 26,846,415</u>	<u>\$ 27,598,056</u>	<u>\$ 27,377,151</u>	<u>\$ 21,234,998</u>	<u>\$ 22,581,648</u>	<u>\$ 21,857,844</u>	<u>\$ 23,763,442</u>	<u>\$ 26,488,145</u>	<u>\$ 36,786,549</u>	<u>\$ 32,777,356</u>
All Other Governmental Funds										
Reserved	\$ 1,379,932	\$ 98,981	\$ 837,937	\$ 467,111	\$ 408,325	\$ 2,539,641	\$ 14,416,749	\$ 6,941,128	\$ 6,687,005	\$ 5,430,322
Unreserved, reported in:										
Special revenue funds	909,148	1,338,609	(251,968)	2,259,604	1,148,588	3,019,561	3,901,971	3,464,014	4,071,768	3,219,576
Capital projects funds	6,903,146	7,978,944	(627,007)	5,358,356	969,282	3,185,163	730,434	(2,600,639)	9,825,526	13,985,011
Total All Other Governmental Funds	<u>\$ 9,192,226</u>	<u>\$ 9,416,534</u>	<u>\$ (41,038)</u>	<u>\$ 8,085,071</u>	<u>\$ 2,526,195</u>	<u>\$ 8,744,365</u>	<u>\$ 19,049,154</u>	<u>\$ 7,804,503</u>	<u>\$ 20,584,299</u>	<u>\$ 22,634,909</u>

Source: Director of Financial Services, City of Lynchburg, Virginia.

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues										
Taxes	\$ 71,723,052	\$ 74,095,046	\$ 75,261,807	\$ 78,904,476	\$ 79,972,330	\$ 81,766,514	\$ 86,781,006	\$ 92,733,402	\$ 103,986,837	\$ 102,976,887
Regulatory licenses, permits and privilege fees	392,751	492,100	671,067	700,188	727,489	675,311	738,887	635,880	1,025,782	887,272
Intergovernmental	31,330,140	30,324,244	31,498,320	38,900,160	36,758,660	39,762,030	42,590,744	40,066,285	43,636,173	45,511,572
Fines and forfeitures	679,268	792,086	807,230	733,148	776,701	538,753	551,716	552,797	593,518	581,986
Revenue from use of money and property	3,853,335	2,439,515	2,972,228	2,761,993	1,653,469	1,070,082	1,473,169	2,236,442	3,092,260	4,438,852
Charges for services	5,673,819	6,317,948	6,929,195	7,249,832	6,588,909	5,725,305	8,384,511	9,968,139	10,362,547	10,480,891
Miscellaneous	2,978,666	4,235,538	3,737,036	3,649,751	3,496,031	4,618,072	3,125,934	1,880,832	2,158,618	2,019,557
Total revenues	116,631,031	118,696,477	121,876,883	132,899,548	129,973,589	134,156,067	143,645,967	148,073,777	164,855,735	166,897,017
Expenditures										
General government	15,190,387	15,615,422	10,631,360	10,292,091	13,258,157	14,601,433	12,130,482	12,772,780	13,236,092	14,284,594
Judicial	4,042,190	2,193,554	2,949,446	3,405,999	3,320,619	3,699,569	4,134,506	4,573,231	4,875,257	5,279,455
Public Safety	18,133,322	19,882,774	26,389,286	27,278,757	27,910,760	27,475,148	33,129,964	35,179,870	36,850,835	38,394,220
Public Works	10,952,078	15,836,081	16,584,960	13,127,121	12,112,402	13,549,915	10,271,407	16,347,027	14,294,952	13,054,801
Health and human services	14,523,258	16,490,727	16,922,265	17,597,486	18,738,254	17,590,464	26,853,682	20,883,082	20,815,071	22,886,119
Cultural and recreational	2,897,439	1,343,898	1,621,449	1,668,327	1,717,189	3,929,095	7,549,794	7,770,918	8,291,783	8,753,747
Community development	8,685,881	3,887,211	6,224,694	7,732,311	6,401,530	4,820,850	8,514,631	6,352,211	6,333,310	6,716,287
Education (1)	-	-	-	-	3,644	27,025,411	26,005,227	27,714,269	30,057,224	30,330,939
Non-departmental (2)	4,246,200	4,576,635	5,531,207	4,925,107	3,327,441	2,806,878	-	-	-	-
Capital Outlay										
Capital general government (4)	12,361,228	4,832,682	12,177,055	8,706,840	6,548,077	10,402,729	25,350,920	13,049,200	13,958,226	14,285,864
Debt Services										
Principal Retirement	3,907,244	10,428,347	3,834,123	3,787,898	5,219,573	23,058,352	18,957,684	7,431,610	18,870,007	8,428,304
Interest payments and other fiscal charges	2,309,878	2,516,335	2,253,317	2,493,702	2,357,402	3,862,166	4,417,364	4,584,994	4,554,384	5,113,526
Issuance costs	-	-	-	-	-	-	-	192,826	173,943	-
Total expenditures	97,249,105	97,603,666	105,119,162	101,015,639	100,915,048	152,822,010	177,315,661	156,852,018	172,311,084	167,527,856
Excess (deficiency) of revenues over expenditures	19,381,926	21,092,811	16,757,721	31,883,909	29,058,541	(18,665,943)	(33,669,694)	(8,778,241)	(7,455,349)	(630,839)
Other financing sources (uses)										
Proceeds from debt issues	13,148,254	7,830,110	3,345,000	6,255,575	-	26,306,594	47,234,898	-	31,725,694	-
Premium on debt proceeds	-	-	-	-	-	-	-	-	732,486	-
Construction advance (3)	-	-	-	-	-	(3,525,664)	-	-	-	-
Issuance of refunding bonds	3,011,198	706,312	-	-	-	-	-	26,322,927	-	-
Issuance of refunding capital lease	-	-	-	-	-	-	-	1,679,825	-	-
Payments to escrow agent	(2,992,954)	-	-	-	-	-	-	(28,063,727)	-	-
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-	-
Capital contributions	-	-	-	-	-	-	-	1,938,525	-	-
Transfers to component units	(27,322,562)	(27,787,372)	(29,043,108)	(30,634,768)	(31,462,089)	-	-	-	-	-
Transfers in	6,198,789	4,245,891	6,094,699	7,338,468	3,324,609	6,660,812	6,857,148	4,731,105	4,969,990	14,494,290
Transfers out	(7,090,579)	(5,111,803)	(6,832,789)	(11,707,086)	(5,133,287)	(7,786,893)	(8,544,661)	(6,550,242)	(6,894,621)	(16,995,849)
Total other financing sources (uses)	(15,047,854)	(20,116,862)	(26,436,198)	(28,747,811)	(33,270,767)	21,654,849	45,547,385	58,413	30,533,549	(2,501,559)
Net Change in fund balances	<u>\$ 4,334,072</u>	<u>\$ 975,949</u>	<u>\$ (9,678,477)</u>	<u>\$ 3,136,098</u>	<u>\$ (4,212,226)</u>	<u>\$ 2,988,906</u>	<u>\$ 11,877,691</u>	<u>\$ (8,719,828)</u>	<u>\$ 23,078,200</u>	<u>\$ (3,132,398)</u>
Debt Service as a percentage of noncapital expenditures	7.32%	13.95%	6.55%	6.80%	8.03%	18.90%	15.38%	8.49%	14.90%	8.84%

Source: Director of Financial Services, City of Lynchburg, Virginia.

(1) Education was included in transfers to component units prior to FY 2003

(2) Non-departmental expenditures began being allocated in FY 2004

(3) The construction advance was to fund the E.C. Glass High School renovation project that was ahead of the projected schedule for completion.

(4) Beginning with restating FY 2006, and going forward, capital outlay was adjusted to reflect all capital expenditures. The functional categories of current expenditures were adjusted to reflect the reduction for capital expenditures already reported.

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GENERAL FUND
LAST SIX FISCAL YEARS

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Revenues:						
Taxes	\$ 79,972,330	\$ 80,652,301	\$ 85,774,800	\$ 91,739,497	\$ 103,012,216	\$ 102,480,268
Regulatory licenses, permits, and privilege fees	727,489	675,311	738,887	635,880	1,025,782	887,272
Intergovernmental	26,464,743	28,410,482	27,295,898	27,321,323	30,391,990	31,311,980
Fines & forfeitures	776,701	538,753	551,716	552,797	593,518	581,986
Revenues from use of money & property	1,395,847	920,401	797,531	1,373,658	2,130,172	3,377,730
Charges for services	3,177,610	3,486,991	6,371,250	6,442,510	7,376,311	7,083,847
Miscellaneous	3,009,763	3,283,568	666,969	955,066	1,261,164	387,005
Total revenues	115,524,483	117,967,807	122,197,051	129,020,731	145,791,153	146,110,088
Expenditures:						
Current operating expenditures:						
General government	13,258,157	14,421,107	11,960,240	12,499,485	13,176,072	14,111,441
Judicial	3,320,619	3,560,726	3,303,952	3,536,008	3,827,095	4,182,946
Public safety	21,951,566	22,472,414	29,178,810	31,113,303	32,782,350	34,640,217
Public works	11,998,157	13,541,234	10,244,342	10,616,660	11,801,684	11,565,845
Health and human services	14,844,129	14,596,916	21,317,811	15,744,061	16,111,220	16,577,034
Cultural & recreational	1,637,069	3,874,887	6,427,237	6,466,171	6,926,949	7,287,216
Community development	3,133,884	2,082,214	3,102,768	3,874,987	3,559,260	4,034,373
Education (1)	-	27,025,411	26,005,227	27,125,060	29,894,763	30,418,183
Non-departmental	3,327,391	2,683,294	-	-	-	-
Debt service:						
Principal retirements	3,293,886	21,322,543	17,839,066	7,024,174	18,326,124	7,702,865
Interest payments and other fiscal charges	1,882,148	3,479,744	3,848,634	4,246,388	4,273,525	4,794,314
Issuance costs	-	-	-	161,433	146,165	-
Total expenditures	78,647,006	129,060,490	133,228,087	122,407,730	140,825,207	135,314,434
Excess (deficiency) of revenues over expenditures	36,877,477	(11,092,683)	(11,031,036)	6,613,001	4,965,946	10,795,654
Other financing sources (uses):						
Issuance of bonds	-	15,648,755	19,063,115	-	10,644,739	-
Premium on debt proceeds	-	-	-	-	361,837	-
Issuance of refunding bonds	-	-	-	24,393,868	-	-
Payments to escrow agent	-	-	-	(24,152,140)	-	-
Transfers in	729,759	1,696,702	927,197	994,616	504,783	126,333
Transfers out	(4,798,497)	(6,976,578)	(7,065,218)	(5,182,642)	(6,178,901)	(15,241,180)
Transfers to component units (1)	(31,462,089)	-	-	-	-	-
Total other financing sources (uses)	(35,530,827)	10,368,879	12,925,094	(3,946,298)	5,332,458	(15,114,847)
Net changes in fund balances	1,346,650	(723,804)	1,894,058	2,666,703	10,298,404	(4,319,193)
Fund balance - beginning, as restated (2)	21,234,998	22,581,648	21,869,384	23,821,442	26,488,145	37,096,549
Fund balance - ending	\$ 22,581,648	\$ 21,857,844	\$ 23,763,442	\$ 26,488,145	\$ 36,786,549	\$ 32,777,356

Source: Director of Financial Services, City of Lynchburg, Virginia

(1) For FY 2003 and prospectively, the General Fund transfer to Lynchburg City Schools (component unit) was reclassified as an education expenditure.

(2) Beginning fund balance restated as of June 30, 2003, June 30, 2004, and June 30, 2006. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report, June 30, 2004, June 30, 2005, and June 30, 2007.

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SCHOOL FUND
LAST SIX FISCAL YEARS

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Revenues:						
Intergovernmental	\$ 34,896,406	\$ 35,813,533	\$ 63,603,079	\$ 67,442,823	\$ 71,207,508	\$ 78,033,072
Revenue from use of money & property	4,807	-	1,643	2,100	32,611	31,600
Charges for services	394,267	390,409	386,744	324,097	395,382	1,344,909
Miscellaneous	206,984	27,266,567	203,831	392,233	343,074	159,662
Total revenues	35,502,464	63,470,509	64,195,297	68,161,253	71,978,575	79,569,243
Expenditures:						
Education:						
Instruction	1,830,300	49,580,140	49,693,140	52,327,742	55,484,371	60,849,179
Administration, attendance, and health	48,509,600	1,741,567	2,062,680	2,128,927	2,424,016	2,821,351
Pupil transportation services	2,903,845	2,990,460	3,001,085	3,214,586	3,774,716	4,112,219
Operations and maintenance	6,571,305	7,349,258	7,575,110	7,976,868	8,890,256	10,086,015
Facilities	-	-	858,962	-	-	-
Capital outlay	2,994,244	2,183,590	1,471,364	2,698,587	1,956,743	1,373,409
Debt service: (1)						
Principal retirements	1,929,342	-	737,511	724,075	782,024	867,874
Interest payments	1,696,173	-	58,727	48,412	92,951	80,702
Total expenditures	66,434,809	63,845,015	65,458,579	69,119,197	73,405,077	80,190,749
Excess (deficiency) of revenues over expenditures	(30,932,345)	(374,506)	(1,263,282)	(957,944)	(1,426,502)	(621,506)
Other financing sources (uses):						
Capital lease proceeds	1,000,000	1,000,000	-	1,500,000	750,000	1,000,000
Operating transfers in (out)	(1,063,986)	(120,810)	-	-	-	-
Transfers from primary government (1)	31,162,089	-	-	-	-	-
Total other financing sources (uses)	31,098,103	879,190	-	1,500,000	750,000	1,000,000
Net change in fund balances	165,758	504,684	(1,263,282)	542,056	(676,502)	378,494
Fund balance - beginning (2)	2,188,087	2,353,845	2,260,909	997,627	1,539,683	863,181
Fund balance - ending	\$ 2,353,845	\$ 2,858,529	\$ 997,627	\$ 1,539,683	\$ 863,181	\$ 1,241,675

Source: Director of Financial Services, City of Lynchburg, Virginia.

(1) For FY 2003 and prospectively, transfers in from primary government were reclassified as intergovernmental revenue. Also, debt service expenditures were reclassified as debt service for the primary government rather than the component unit.

(2) Beginning fund balance restated as of June 30, 2003. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report, June 30, 2004.

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
SOLID WASTE MANAGEMENT FUND
LAST SIX FISCAL YEARS**

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Operating revenues:						
Charges for services and other operating revenues	\$ 4,842,010	\$ 5,412,580	\$ 6,352,423	\$ 6,985,739	\$ 7,219,229	\$ 7,276,645
Total operating revenues	4,842,010	5,412,580	6,352,423	6,985,739	7,219,229	7,276,645
Operating expenses: (2)						
Personal services and benefits	-	-	-	1,704,262	1,780,192	1,836,677
Operation and maintenance	3,194,415	3,023,374	4,882,140	481,135	539,736	789,615
Supplies and materials	-	-	-	735,989	675,795	915,039
Administration	756,780	701,245	67,791	1,046,949	968,816	809,909
Landfill closure and postclosure care	(378,687)	245,102	348,643	147,355	(10,680)	492,408
Other charges	-	-	-	68,429	45,333	62,399
Depreciation	814,662	869,917	905,666	836,599	816,017	770,892
Total operating expenses	4,387,170	4,839,638	6,204,240	5,020,718	4,815,209	5,676,939
Operating income	454,840	572,942	148,183	1,965,021	2,404,020	1,599,706
Nonoperating revenues (expenses):						
Interest income	252,415	129,867	77,098	193,886	464,624	788,040
Governmental grants	198,878	191,039	201,836	199,638	204,134	201,735
Miscellaneous	42,182	46,678	113,451	67,665	43,347	65,594
Loss on disposition of assets	(1,498)	(190,589)	(95,876)	(49,893)	(14,922)	(12,540)
Interest on long-term debt	(407,047)	(334,840)	(327,127)	(303,528)	(301,809)	(238,168)
Total nonoperating revenues (expenses)	84,930	(157,845)	(30,618)	107,768	395,374	804,661
Income before contributions and transfers	539,770	415,097	117,565	2,072,789	2,799,394	2,404,367
Transfers in	-	135,371	284,282	732,529	732,529	732,529
Transfers out	(1,205,438)	-	-	(371,855)	(532,855)	(582,000)
Change in net assets	(665,668)	550,468	401,847	2,433,463	2,999,068	2,554,896
Total net assets - beginning, as restated (1)	7,194,671	6,529,003	7,411,880	7,813,727	10,247,190	13,246,258
Ending net assets:						
Invested in capital assets, net of related debt	1,586,793	1,430,278	2,035,525	2,271,866	2,467,438	2,543,907
Restricted	6,229	-	-	-	-	-
Unrestricted	4,935,981	5,649,193	5,778,202	7,975,324	10,778,820	13,257,247
Total net assets - ending	<u>\$ 6,529,003</u>	<u>\$ 7,079,471</u>	<u>\$ 7,813,727</u>	<u>\$ 10,247,190</u>	<u>\$ 13,246,258</u>	<u>\$ 15,801,154</u>

Source: Director of Financial Services, City of Lynchburg, Virginia.

(1) Beginning fund balance restated as of June 30, 2003. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report, June 30, 2004.

(2) Beginning in FY 2005, operation and maintenance expenses reported in more detail.

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
WATER FUND
LAST SIX FISCAL YEARS

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Operating revenues:						
Charges for services and other operating revenues	\$ 8,312,263	\$ 8,607,032	\$ 9,001,806	\$ 9,488,676	\$ 10,352,303	\$ 10,397,780
Total operating revenues	8,312,263	8,607,032	9,001,806	9,488,676	10,352,303	10,397,780
Operating expenses: (2)						
Personal services and benefits	-	-	-	2,830,609	2,953,729	3,175,057
Operation and maintenance	4,521,720	4,449,546	3,752,474	1,120,155	1,052,595	1,086,665
Supplies and materials	-	-	-	650,421	833,802	915,748
Administration	1,030,596	910,404	2,129,563	1,318,927	1,359,399	1,329,083
Other charges	-	-	-	48,269	68,637	57,613
Depreciation	1,609,740	1,575,929	1,952,385	1,743,936	1,771,749	1,796,958
Total operating expenses	7,162,056	6,935,879	7,834,422	7,712,317	8,039,911	8,361,124
Operating income	1,150,207	1,671,153	1,167,384	1,776,359	2,312,392	2,036,656
Nonoperating revenues (expenses):						
Interest income	151,034	69,732	57,640	123,527	264,029	629,409
Miscellaneous	19,695	54,449	17,052	26,984	3,902	8,468
Loss on disposition of assets	-	-	(238,743)	(8,422)	(17,683)	(12,880)
Interest on long-term debt	(858,389)	(875,982)	(971,932)	(963,889)	(1,135,500)	(1,382,240)
Total nonoperating revenues (expenses)	(687,660)	(751,801)	(1,135,983)	(821,800)	(885,252)	(757,243)
Income before contributions and transfers	462,547	919,352	31,401	954,559	1,427,140	1,279,413
Capital contributions	-	-	-	208,868	-	-
Transfers out	(401,998)	(452,628)	(161,000)	(147,123)	(182,846)	(77,000)
Change in net assets	60,549	466,724	(129,599)	1,016,304	1,244,294	1,202,413
Total net assets - beginning, as restated (1)	30,757,634	30,818,183	31,108,943	30,979,344	31,995,648	33,239,942
Ending net assets:						
Invested in capital assets, net of related debt	25,031,692	25,514,601	24,348,833	25,767,489	27,805,400	27,457,812
Restricted	13,608	7,515	-	-	-	-
Unrestricted	5,772,883	5,762,791	6,630,511	6,228,159	5,434,542	6,984,543
Total net assets - ending	<u>\$ 30,818,183</u>	<u>\$ 31,284,907</u>	<u>\$ 30,979,344</u>	<u>\$ 31,995,648</u>	<u>\$ 33,239,942</u>	<u>\$ 34,442,355</u>

Source: Director of Financial Services, City of Lynchburg, Virginia.

(1) Beginning fund balance restated as of June 30, 2003. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report, June 30, 2004.

(2) Beginning in FY 2005, operation and maintenance expenses reported in more detail.

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
SEWER FUND
LAST SIX FISCAL YEARS

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Operating revenues:						
Charges for services and other operating revenues	\$ 12,705,123	\$ 13,273,211	\$ 13,919,612	\$ 14,682,219	\$ 15,405,174	\$ 16,040,587
Total operating revenues	12,705,123	13,273,211	13,919,612	14,682,219	15,405,174	16,040,587
Operating expenses: (2)						
Personal services and benefits	-	-	-	1,894,076	1,919,958	2,094,012
Operation and maintenance	3,930,346	4,116,454	5,749,871	1,684,070	1,942,779	1,776,185
Supplies and materials	-	-	-	773,012	836,684	841,857
Administration	1,849,859	1,704,560	858,727	1,744,083	1,798,976	1,863,792
Other charges	-	-	-	23,902	40,887	34,347
Depreciation	3,156,787	3,312,342	3,662,382	3,777,969	3,954,820	4,108,561
Total operating expenses	8,936,992	9,133,356	10,270,980	9,897,112	10,494,104	10,718,754
Operating income	3,768,131	4,139,855	3,648,632	4,785,107	4,911,070	5,321,833
Nonoperating revenues (expenses):						
Interest income	421,275	744,837	200,511	248,236	456,342	858,384
Governmental grants	38,500	38,500	38,500	38,500	38,500	38,500
Miscellaneous	7,729	140,041	103,553	5,157	29,183	6,558
Gain (loss) on disposition of assets	(13,643)	(3,851)	2,080	(305,674)	(24,334)	-
Interest on long-term debt	(1,695,680)	(1,919,090)	(2,818,973)	(1,777,877)	(1,777,407)	(1,901,244)
Total nonoperating revenues (expenses)	(1,241,819)	(999,563)	(2,474,329)	(1,791,658)	(1,277,716)	(997,802)
Income before contributions and transfers	2,526,312	3,140,292	1,174,303	2,993,449	3,633,354	4,324,031
Capital contributions	6,371,216	3,867,125	4,711,890	3,851,205	1,534,561	766,259
Transfers out	(328,346)	(806,668)	(396,189)	(164,394)	(110,389)	(452,000)
Change in net assets	8,569,182	6,200,749	5,490,004	6,680,260	5,057,526	4,638,290
Total net assets - beginning, as restated (1)	53,663,821	62,233,003	68,706,621	75,646,728	82,326,988	87,384,514
Ending net assets:						
Invested in net assets, net of related debt	58,225,166	57,318,081	63,406,634	69,171,836	73,629,641	74,801,294
Restricted	11,352	7,043,943	-	-	-	-
Unrestricted	3,996,485	4,071,728	10,789,991	13,155,152	13,754,873	17,221,510
Total net assets - ending	\$ 62,233,003	\$ 68,433,752	\$ 74,196,625	\$ 82,326,988	\$ 87,384,514	\$ 92,022,804

Source: Director of Financial Services, City of Lynchburg, Virginia.

(1) Beginning fund balance restated as of June 30, 2003 and June 30, 2004. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report, June 30, 2004 and June 30, 2005.

(2) Beginning in FY 2005, operation and maintenance expenses reported in more detail.

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
AIRPORT FUND
LAST SIX FISCAL YEARS

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Operating revenues:						
Charges for services and other operating revenues	\$ 1,151,542	\$ 1,401,379	\$ 1,480,514	\$ 1,637,730	\$ 1,762,826	\$ 1,848,109
Intergovernmental	36,363	179,502	32,588	71,309	146,198	129,582
Total operating revenues	1,187,905	1,580,881	1,513,102	1,709,039	1,909,024	1,977,691
Operating expenses: (2)						
Personal services and benefits	-	-	-	1,009,935	795,052	867,626
Operation and maintenance	1,495,605	1,193,299	1,665,851	424,166	695,575	751,314
Supplies and materials	-	-	-	88,525	111,521	96,152
Administration	115,420	425,436	558,515	191,387	231,161	235,657
Other charges	-	-	-	19,803	17,678	16,004
Depreciation	1,406,045	1,397,321	1,492,120	1,546,691	1,545,339	1,568,656
Total operating expenses	3,017,070	3,016,056	3,716,486	3,280,507	3,396,326	3,535,409
Operating loss	(1,829,165)	(1,435,175)	(2,203,384)	(1,571,468)	(1,487,302)	(1,557,718)
Nonoperating revenues (expenses):						
Interest income	27,840	7,922	5,487	16,873	63,986	106,412
Governmental grants	134,947	8,532	-	1,726	26,969	29,033
Passenger facility charges	136,032	185,658	230,179	256,800	246,981	223,331
Miscellaneous	2,648	12,386	96,961	5,523	6,646	12,260
Gain (Loss) on disposition of assets	-	-	(2,203)	-	-	117,431
Interest on long-term debt	(150,993)	(93,583)	(120,904)	(107,691)	(89,365)	(103,910)
Total nonoperating revenues (expenses)	150,474	120,915	209,520	173,231	255,217	384,557
Loss before contributions and transfers	(1,678,691)	(1,314,260)	(1,993,864)	(1,398,237)	(1,232,085)	(1,173,161)
Capital contributions	1,230,962	769,649	2,491,843	1,245,460	1,285,354	7,928,973
Transfers in	613,535	552,373	490,831	419,980	398,485	367,337
Change in net assets	165,806	7,762	988,810	267,203	451,754	7,123,149
Total net assets - beginning - as restated (1)	21,865,042	22,030,848	22,033,667	23,022,477	23,289,680	23,741,434
Ending net assets:						
Invested in capital assets, net of related debt	21,197,318	21,326,437	22,231,939	22,022,931	21,640,700	29,582,661
Restricted	1,024,517	133,194	-	-	312,049	1,765
Unrestricted	(190,987)	578,979	790,538	1,266,749	1,788,685	1,280,157
Total net assets - ending	\$ 22,030,848	\$ 22,038,610	\$ 23,022,477	\$ 23,289,680	\$ 23,741,434	\$ 30,864,583

Source: Director of Financial Services, City of Lynchburg, Virginia.

(1) Beginning fund balance restated as of June 30, 2003. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report, June 30, 2004.

(2) Beginning in FY 2005, operation and maintenance expenses reported in more detail.

**TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS,
LAST SEVEN FISCAL YEARS**

(modified accrual basis of accounting)

	Fiscal Year						
	2001	2002	2003	2004	2005	2006	2007
Real Estate	\$ 27,396,089	\$ 29,980,713	\$ 30,820,001	\$ 34,033,120	\$ 34,949,790	\$ 39,116,533	\$ 40,449,499
PSC Taxes	2,019,807	2,218,855	2,407,289	2,440,156	2,441,684	2,123,037	2,084,337
Personal Property Tax	12,303,662	10,006,956	10,197,416	10,643,759	12,337,162	18,512,544	13,601,986
Penalties & Interest	651,445	632,433	650,448	663,897	682,712	819,079	665,421
Sales & Use Tax	11,592,048	11,905,178	11,027,631	11,528,820	12,221,813	13,319,691	14,481,096
Utility Tax (1)	6,429,867	6,183,639	6,826,740	6,892,926	7,087,224	6,870,716	5,919,376
Business License Tax	6,519,269	6,561,438	6,712,152	6,507,848	7,371,507	7,237,403	7,569,060
Franchise License Tax (1)	636,371	805,383	545,624	570,921	574,721	584,346	316,824
Communication Sales & Use Tax (1)	-	-	-	-	-	-	1,669,968
Motor Vehicles Licenses	1,234,155	1,248,753	1,233,855	1,246,702	1,498,014	856,406	1,491,186
Bank Stock Taxes	1,010,280	1,074,795	647,929	590,123	545,221	598,733	503,322
Taxes on Recordation and Wills	226,798	309,720	359,561	414,598	561,009	786,799	809,424
Tobacco Taxes	607,991	553,676	652,156	1,083,020	1,087,358	972,337	1,002,130
Admission and Amusement Taxes	257,513	288,175	311,639	261,647	344,161	368,680	409,473
Hotel and Motel Room Taxes	1,357,862	1,277,686	1,275,664	1,363,085	1,392,866	1,491,943	1,565,191
Restaurant Food Taxes	6,661,317	6,921,931	6,984,195	7,561,387	8,666,119	9,382,349	9,974,012
Emergency Telephone Service Tax (1)	-	-	1,114,213	978,995	972,043	946,241	464,582
Total General Government Tax Revenues	<u>\$ 78,904,474</u>	<u>\$ 79,969,331</u>	<u>\$ 81,766,513</u>	<u>\$ 86,781,004</u>	<u>\$ 92,733,404</u>	<u>\$ 103,986,837</u>	<u>\$ 102,976,887</u>

Source: Director of Financial Services, City of Lynchburg, Virginia.

- (1) In 2006 the General Assembly of the State of Virginia created a new tax called the Communication Sales & Use Tax. This tax will account for all communication taxes for telephone land line services and wireless services. Therefore, the utility taxes, franchise taxes, and emergency telephone service taxes will be less in FY 2007 and future years.

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE REAL PROPERTY,
LAST TEN FISCAL YEARS (1)**

(in thousands of dollars)

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Total Taxable Assessed Value (2)	Total Direct Tax Rate
1998	\$1,543,357,925	\$ 522,672,050	\$ 234,819,100	\$2,300,849,075	\$ 1.11
1999	1,564,690,825	532,230,500	250,620,750	2,347,542,075	1.11
2000	1,620,521,425	574,270,350	262,396,250	2,457,188,025	1.11
2001	1,642,029,175	598,033,300	264,948,800	2,505,011,275	1.11
2002	1,825,363,885	656,406,200	269,264,050	2,751,034,135	1.11
2003	1,874,979,135	675,181,050	274,750,900	2,824,911,085	1.11
2004	2,036,969,900	811,633,000	276,950,200	3,125,553,100	1.11
2005	2,100,441,500	827,888,000	271,014,300	3,199,343,800	1.11
2006	2,391,089,200	911,430,500	266,308,500	3,568,828,200	1.11
2007	2,464,890,200	941,845,300	275,614,800	3,682,350,300	1.11

Source: Assessor's office of City of Lynchburg, Virginia

(1) Assessed value is as of January 1 of the previous fiscal year.

(2) Excludes tax-exempt property.

**ASSESSED VALUE OF ALL TAXABLE PROPERTY (1)
LAST TEN FISCAL YEARS**

Fiscal Year	Public Service Corporation					
	Real Estate (2)	Personal Property (3)	Machinery and Tools (2)	Real Estate	Personal Property	Total
1998	\$ 2,290,471,575	\$ 376,396,894	\$ 103,346,245	\$ 134,128,601	\$ 24,168,112	\$ 2,928,511,427
1999	2,339,246,125	395,509,615	118,823,544	135,417,968	24,248,606	3,013,245,858
2000	2,449,420,625	411,292,462	131,817,754	147,404,173	26,207,912	3,166,142,926
2001	2,497,468,075	438,964,042	133,509,096	146,514,485	33,989,577	3,250,445,275
2002	2,743,591,485	419,024,367	106,329,586	163,282,375	33,883,382	3,466,111,195
2003	2,822,449,135	449,743,493	117,085,047	187,708,383	27,292,958	3,604,279,016
2004	3,116,578,400	458,996,765	125,639,040	185,826,527	28,684,711	3,915,725,443
2005	3,190,227,000	441,221,304	106,245,785	191,327,640	25,901,179	3,954,922,908
2006	-	464,880,808 (4)	113,654,354 (4)	-	-	-
2006	3,558,304,600	497,307,627 (5)	112,864,422 (5)	166,819,698	21,891,230	4,357,187,577
2007	3,682,350,300	457,143,549 (6)	112,031,073 (6)	163,455,331	22,435,903	4,437,416,156

Sources: Real Estate Assessor, and Commissioner of Revenue.

(1) Assessed value is as of January 1 of the previous fiscal year.

(2) Real estate and machinery and tools are assessed at 100% of fair market value.

(3) Effective July 1, 1989, personal property is assessed at 100% of average trade-in value.

Personal property is assessed at 100% of fair market value.

(4) 2005 Personal Property Tax Levy in FY 2006.

(5) 2006 Personal Property Tax Levy in FY 2006. These figures have been updated to reflect all billings associated with this levy.

(6) 2007 Personal Property Tax Levy in FY 2007. These figures only reflect two of the four billings associated with this levy. These figures will be updated in FY 2008 to reflect all four billings.

**PRINCIPAL PROPERTY TAXPAYERS,
CURRENT YEAR AND NINE YEARS AGO**

Taxpayer	Type of Business	2007					1998				
		Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	2007 Total Tax Levy	Percentage of Total Tax Levy	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	1998 Total Tax Levy	Percentage of Total Tax Levy
Verizon Va, Inc.	Utility	\$ 64,730,322	1	1.45 %	\$ 718,507	1.13 %	\$ -	-	- %	\$ -	- %
Areva NP Inc.	Nuclear Power Design & Fuel Fabrication	49,323,306	2	1.11	1,072,507	1.69	21,385,750	6	0.73	237,382	0.58
R R Donnelley Printing Co.	Periodical Publication Printing	46,076,218	3	1.03	1,097,567	1.73	17,100,900	7	0.58	189,820	0.46
River Ridge, Ltd.	Shopping Mall	44,768,400	4	1.00	496,929	0.78	32,995,771	3	1.08	350,139	0.85
AEP	Utility	43,339,274	5	0.97	481,066	0.76	32,995,771	2	1.13	366,253	0.89
Frito Lay, Inc.	Food Manufacturer	33,173,772	6	0.74	520,005	0.82	16,349,000	8	0.56	181,474	0.44
Genworth Financial, Inc.	Life Insurance	20,312,918	7	0.46	314,884	0.50	24,342,200	5	0.83	270,198	0.66
J D N Realty Corporation, Inc.	Real Estate Company	20,028,300	8	0.45	222,314	0.35	-	-	-	-	-
Bostic Development at Lynchburg, LLC	Real Estate Company	19,662,500	9	0.44	218,254	0.34	-	-	-	-	-
CCRC, Inc.	Nursing Home/Assisted Living	17,587,300	10	0.39	195,219	0.31	-	-	-	-	-
Walden Pond Association	Apartment Complex	-					15,064,900	9	0.51	167,220	0.41
Candler Station Ltd.	Shopping Center	-					13,575,950	10	0.46	150,693	0.37
Ericsson-GE Mobile Communications	Mobile Communications	-		-	-	-	25,709,900	4	0.88	285,380	0.69
Bell Atlantic-Virginia, Inc.	Utility	-		-	-	-	65,379,914	1	2.23	725,717	1.77
Total		<u>\$ 359,002,310</u>		<u>8.04 %</u>	<u>\$ 5,337,252</u>	<u>8.41 %</u>	<u>\$ 264,900,056</u>		<u>8.99 %</u>	<u>\$ 2,924,276</u>	<u>7.12 %</u>
Total Assessed Valuation:		<u>\$ 4,463,198,853</u>					<u>\$ 2,928,511,427</u>				
Tax Levy:											
Real Estate		\$ 40,874,088									
Railroads and Pipelines		149,189									
Public Service Corporations		2,084,344									
Personal Property		<u>20,287,330</u>									
Total Tax Levy:		<u>\$ 63,394,951</u>									

Source: City of Lynchburg, Real Estate Assessor and Commissioner of Revenue

CITY OF LYNCHBURG, VIRGINIA

TABLE 16

PROPERTY TAX LEVIES AND COLLECTIONS,
LAST TEN FISCAL YEARS

Fiscal Year	Tax Levied for the Fiscal Year (1)	Collected within the Fiscal Year of the Levy		Delinquent Tax Collections (3)	Total Collections to Date	
		Amount	Percentage of Levy (2)		Amount	Percentage of Levy (2)
1998	\$ 41,219,739	\$ 39,793,041	96.54%	\$ 876,002	\$ 40,669,043	98.66%
1999	42,273,206	40,935,842	96.84%	743,598	41,679,440	98.60%
2000	44,505,082	43,175,341	97.01%	1,011,960	44,187,301	99.29%
2001	46,042,884	44,634,425	96.94%	1,112,034	45,746,459	99.36%
2002	48,710,267	47,306,624	97.12%	794,603	48,101,227	98.75%
2003	50,077,075	48,306,161	96.46%	1,200,837	49,506,998	98.86%
2004	54,001,611	52,095,333	96.47%	1,203,114	53,298,447	98.70%
2005	55,627,670	54,679,067	98.29%	1,154,204	55,833,271	100.37%
2006	66,342,595	64,525,107	97.26%	1,279,101	65,804,208	99.19%
2007	63,755,881	60,579,970	95.02%	1,580,642	62,160,612	97.50%

Source: Director of Financial Services, City of Lynchburg, Virginia

(1) Total tax levy is calculated based on the sum of Real Estate Tax and Personal Property Tax levies.

(2) These columns represent the amount and percentage on the tax levy within the respective tax year reporting period.

(3) This column represents delinquent taxes collected within the respective reporting period.

Note:

The increase in the FY 2006 levy is a result of the change in personal property tax billing to a two installment billing system. Both installments were levied in May 2006 for calendar year 2006 personal property tax. However, only the first installment was due in June 2006 with the second installment due in December 2006. Future fiscal years will include a May levy with installments due June 5 and December 5.

CITY OF LYNCHBURG, VIRGINIA

TABLE 17

PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(per \$100 of assessed valuation)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Real Estate										
Locally Assessed	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11
Personal Property										
Locally Assessed	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.80	3.80	3.80
Machinery and Tools	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Automobiles, Trucks and Business Equipment	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.80	3.80	3.80
Public Service Corporations										
Equalized	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11
Automobiles and Trucks	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.80	3.80	3.80

Source: Information was obtained from Official Statements related to bond issuance for June 27, 2000, April 26, 2006, and July 19, 2007.

**RATIOS OF OUTSTANDING DEBT BY TYPE,
LAST TEN FISCAL YEARS**
(dollars in thousands)

Fiscal Year	Governmental Activities					Business-type Activities				Total Primary Government
	General Obligation Bonds	Literary Bonds	General Obligation Notes	Note Payable	Capital Leases	General Obligation Bonds	General Obligation Notes	Public Utility Revenue Bonds	Capital Leases	
1998	\$ 39,256	\$ 516	\$ 6,000	\$ -	\$ 3,130	\$ 58,166	\$ -	\$ 45,148	\$ 438	\$ 152,654
1999	43,525	458	-	-	2,961	59,308	-	52,681	226	159,159
2000	39,866	400	3,345	-	2,783	54,707	-	56,266	77	157,444
2001	42,519	341	3,345	-	2,595	55,521	-	57,500	-	161,821
2002	71,901	283	9,290	-	2,397	63,499	-	56,096	-	203,466
2003	85,006	225	610	-	2,187	64,141	-	52,973	-	205,142
2004	100,251	166	7,500	3,200	8,396	66,896	-	59,152	-	245,561
2005	93,990	127	7,500	3,200	7,747	61,935	-	63,526	-	238,025
2006	116,709	87	-	3,200	7,287	57,532	16,500	70,543	-	271,858
2007	108,593	68	-	3,020	6,810	52,295	16,500	74,985	-	262,271

Source: Director of Financial Services, City of Lynchburg, Virginia.

Note: Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements.

**RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING,
LAST TEN FISCAL YEARS**

(dollars in thousands, except per capita)

Fiscal Year	Population (1)	Assessed Valuation (in thousands)	Gross Bonded Debt (2)	Debt Payable From Enterprise Revenues (2)	Net Bonded Debt	Net Bonded Debt To Assessed Value	Net Bonded Debt Per Capita
1998	66,400	\$ 2,928,511	\$ 133,399	\$ 58,166	\$ 75,233	2.57%	\$ 1,133
1999	66,200	3,013,246	133,714	59,337	74,377	2.47%	1,124
2000	65,269	3,166,143	126,725	54,707	72,018	2.27%	1,103
2001	65,400	3,250,445	134,592	55,521	79,071	2.43%	1,209
2002	65,800	3,466,111	144,973	63,499	81,474	2.35%	1,238
2003	66,400	3,604,279	149,981	64,140	85,841	2.38%	1,293
2004	67,100	3,915,725	174,813	66,896	107,917	2.76%	1,608
2005	67,756	3,954,923	163,552	61,935	101,617	2.57%	1,500
2006	68,758	4,357,188	190,829	74,032	116,797	2.68%	1,699
2007	68,758	4,437,416	177,456	68,795	108,661	2.45%	1,580

Source: Director of Financial Services, City of Lynchburg, Virginia.

(1) Data from the Weldon Cooper Center for Public Service, University of Virginia, Charlottesville, Virginia, for 1996-1999, and 2001-2006 Provisional Estimates; and United States Bureau of the Census 2000. The 2007 population is an estimate based on 2006.

(2) Excludes City of Lynchburg Public Utility Revenue Bonds.

Note: Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements.

**LEGAL DEBT MARGIN INFORMATION,
LAST TEN FISCAL YEARS**

(dollars in thousands)

Legal Debt Margin Calculation for Fiscal Year 2007

Real Property Assessed Value	\$ 3,682,350
Public Service Corporations Real Property Assessed Value	163,455
Total Real Property Assessed Value (1)	<u>3,845,805</u>
Debt limit (10% of assessed value)	384,581
Debt applicable to limit:	
Less: General Obligation Debt	(177,456)
Legal Debt Margin	<u><u>\$ 207,125</u></u>

Description	Fiscal Years									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt limit	\$ 242,460	\$ 247,466	\$ 259,682	\$ 264,398	\$ 290,687	\$ 301,016	\$ 330,240	\$ 338,155	\$ 372,512	\$ 384,581
Total net debt applicable to limit	<u>127,400</u>	<u>133,714</u>	<u>131,167</u>	<u>140,452</u>	<u>143,183</u>	<u>149,371</u>	<u>167,313</u>	<u>156,052</u>	<u>190,828</u>	<u>177,456</u>
Legal debt margin	<u>\$ 115,060</u>	<u>\$ 113,752</u>	<u>\$ 128,515</u>	<u>\$ 123,946</u>	<u>\$ 147,504</u>	<u>\$ 151,645</u>	<u>\$ 162,927</u>	<u>\$ 182,103</u>	<u>\$ 181,684</u>	<u>\$ 207,125</u>
Total net debt applicable to the limit as a percentage of the debt limit	52.54%	54.03%	50.51%	53.12%	49.26%	49.62%	50.66%	46.15%	51.23%	46.14%

Source: Director of Financial Services, City of Lynchburg, Virginia.

(1) See Schedule 14 for Real Property Assessed Value information.

Note: The Constitution of Virginia, Article 7, Section 10(a) sets forth the City's legal debt limit at ten percent (10%) of its assessed valuation of real estate subject to taxation for the City's issuance of any bonds or other interest-bearing obligations. In August 1999, City Council adopted a Debt Management Policy that limits tax-supported debt to five percent (5%) of its assessed valuation of real estate subject to taxation. In December 2006, City Council amended the Debt Management Policy that limits tax-supported debt to four and a half percent (4.5%) of its assessed valuation of real estate subject to taxation.

CITY OF LYNCHBURG, VIRGINIA

TABLE 21

**PLEDGED REVENUE COVERAGE
LAST SEVEN FISCAL YEARS**

	2001	2002	2003	2004	2005	2006	2007
Sewer Fund Operating Income	\$ 3,829,393	\$ 3,768,131	\$ 4,139,855	\$ 3,648,632	\$ 4,785,102	\$ 4,911,070	\$ 5,321,833
Plus:							
Depreciation & amortization	2,611,577	3,156,787	3,312,342	3,662,382	3,777,969	3,954,820	4,108,561
Interest income received	278,053	421,275	55,615	200,511	248,236	456,342	858,384
Capital contributions from members							
Regional Sewerage Treatment Plant	284,411	597,353	785,015	272,336	384,746	385,623	386,530
Governmental grants & miscellaneous income	133,185	46,229	178,541	142,053	43,657	67,683	45,058
Net Revenue per Indenture (1)	<u>\$ 7,136,619</u>	<u>\$ 7,989,775</u>	<u>\$ 8,471,368</u>	<u>\$ 7,925,914</u>	<u>\$ 9,239,710</u>	<u>\$ 9,775,538</u>	<u>\$10,720,366</u>
Debt Service							
General obligation bonds							
Principal	\$ 2,047,307	\$ 879,291	\$ 2,007,725	\$ 1,775,308	\$ 2,217,270	\$ 2,210,090	\$ 2,386,638
Interest	787,250	1,530,736	1,406,731	1,319,116	1,415,544	1,204,587	1,445,911
Total	2,834,557	2,410,027	3,414,456	3,094,424	3,632,814	3,414,677	3,832,549
Revenue bonds							
Principal	2,365,769	3,803,884	3,109,085	2,320,353	2,391,300	2,433,438	2,557,922
Interest	769,652	486,109	515,368	541,101	773,675	537,820	455,333
Total	3,135,421	4,289,993	3,624,453	2,861,454	3,164,975	2,971,258	3,013,255
Total Debt Service Principal and Interest	<u>\$ 5,969,978</u>	<u>\$ 6,700,020</u>	<u>\$ 7,038,909</u>	<u>\$ 5,955,878</u>	<u>\$ 6,797,789</u>	<u>\$ 6,385,935</u>	<u>\$ 6,845,804</u>
Debt Coverage	<u>1.20</u>	<u>1.19</u>	<u>1.20</u>	<u>1.33</u>	<u>1.36</u>	<u>1.53</u>	<u>1.57</u>

Source: Director of Financial Services, City of Lynchburg, Virginia.

(1) In August 1994, the Virginia Department of Environmental Quality (DEQ) issued the City a discharge permit and a special Consent Order which established a compliance schedule and project priorities for implementation of a Combined Sewer Overflow (CSO) Control Plan. The compliance schedule does not contain fixed dates for implementing the CSO Control Plan, but rather provides for implementation that reflects the City's financial capability. The debt coverage calculation above is utilized to determine the City's financial capability for Consent Order compliance based on a minimum debt coverage ratio of 1.2.

**DEMOGRAPHIC AND ECONOMIC STATISTICS,
LAST TEN CALENDAR YEARS**

Fiscal Year	Population (1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income (3)	Median Age (4)	School Enrollment (5)	Unemployment Rate (6)
1998	66,400	\$ 1,490,746	\$ 22,451	33.1	9,515	2.7%
1999	66,200	1,551,927	23,443	33.1	9,387	2.2
2000	65,269	1,604,247	24,579	35.1	9,296	2.1
2001	65,400	1,646,576	25,177	35.1	9,212	4.5
2002	65,800	1,672,768	25,422	35.1	9,064	6.2
2003	66,400	1,739,215	26,193	35.1	8,955	6.1
2004	67,100	1,804,990	26,900	35.1	8,782	N/A
2005	67,756	1,871,827	27,626	35.1	8,625	5.2
2006	68,758	2,055,658	29,897	35.1	8,602	4.0
2007	68,758	*	*	35.1	8,955	4.3

Source: Director of Financial Services, City of Lynchburg, Virginia.

(1) Weldon Cooper Center for Public Service, University of Virginia www.coopercenter.org

(2) U.S. Department of Commerce, Economic and Statistic Administration, Bureau of Economic Analysis

(3) Virginia Employment Commission (annual average) www.vaemploy.com/www.vec.virginia.gov/velma.virtuallmi.com and
Bureau of Economic Analysis

(4) United States Census - 2000

(5) Lynchburg City Schools. Enrollment as of September 30 for each year presented.

(6) Virginia Employment Commission & U.S. Department of Labor, Bureau of Labor Statistics, as of June 2006

* FY 2007 information unavailable

**PRINCIPAL EMPLOYERS ,
CURRENT YEAR AND NINE YEARS AGO**

Employer	2007			1998		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Centra Health, Inc.	4,401	1	13.95%	3,500	1	12.23%
Thomas Road Baptist Church, Jerry Falwell Ministries, Inc.	3,321	2	10.53%	1,240	6	4.33%
Areva (2)	1,639	3	5.20%	1,500	4	5.24%
City of Lynchburg	1,521	4	4.82%	1,110	7	3.88%
Lynchburg City Schools	1,410	5	4.47%	1,524	3	5.33%
Genworth Financial Inc. (1)	1,240	6	3.93%	1,400	5	4.89%
J. Crew Outfitters	800	7	2.54%	1,000	8	3.50%
Lynchburg College	599	8	1.90%	-		0.00%
Nationwide Insurance Company	562	9	1.78%	-		0.00%
Kroger	550	10	1.74%	600	10	2.10%
R.R. Donnelley, Inc.	-		0.00%	875	9	3.06%
Ericsson	-		0.00%	3,500	2	12.23%
Total	16,043			16,249		

Employed Civilian Labor Force (June 2007) Lynchburg City - Virginia Employment
Commission

31,546

Employed Civilian Labor Force (June 1998) Lynchburg City - Virginia Employment
Commission

28,607

Source: FY 2007 numbers are derived from Office of Economic Development,
City of Lynchburg, Virginia as of May 2007.

Source: FY 1998 numbers are derived from Official Statement for bond issuance June 1, 1999.

(1) Formerly First Colony Life Insurance Co.

(2) Formerly Framatome

**FULL-TIME-EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST NINE FISCAL YEARS**

Functions/Programs	Full-time-Equivalent Employees as of June 30								
	Actual 1999	Actual 2000	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Adopted 2007 ⁽¹⁾
Primary government:									
General Government Administration									
Council Manager Offices	7	8	11	10	8	8	8	7	7
City Assessor	11	11	11	11	11	11	13	13	12
City Attorney	5	6	6	7	7	7	7	7	7
Commissioner of Revenue	14	14	14	14	14	15	16	16	16
Communications & Marketing	3	3	3	3	3	3	3	3	3
Customer Service	3	3	3	3	3	3	2	2	4
Financial Services	48	47	48	48	49	51	50	49	48
Financial Services-Human Services	0	0	0	0	0	0	0	0	12
Human Resources	8	9	9	10	10	10	12	10	11
Information Technology	15	13	21	22	23	25	28	28	28
Internal Audit	3	3	3	3	3	3	3	3	2
Registrar and Electoral Board	2	2	2	2	2	2	2	2	2
State Treasurer (State)	3	3	3	3	3	3	2	2	2
Risk Management Fund	3	3	3	3	3	3	3	3	3
Judicial Administration									
Circuit Court Clerk (State)	13	13	13	13	13	13	13	13	13
Circuit Court Judges	2	2	2	2	2	2	2	2	2
Commonwealth Attorney	14	14	27	21	15	15	15	16	15
Sheriff	27	28	27	27	27	27	31	31	31
Regional Juvenile Detention Center Fund	48	49	50	50	51	51	51	48	47
Public Safety									
Police Department	170	170	181	187	187	192	195	188	186
Emergency Communications	26	30	30	30	31	31	32	32	32
Fire Department	183	185	184	182	183	182	183	180	180
Public Works									
Public Works Administration	3	4	8	7	7	6	6	6	0
Buildings & Grounds Maintenance	78	78	76	76	78	76	96	92	91
Engineering Division (2)	26	29	28	38	31	31	36	33	0
Geographic Information System	0	0	0	0	0	3	3	3	3
Street & Traffic Maintenance	57	51	50	40	40	40	42	42	36
Health & Human Services	147	180	187	178	192	180	169	144	142
Social Services Grants	0	0	0	0	0	0	0	22	17
Cultural and recreational	35	77	80	93	83	83	96	101	101
Community Planning & Economic Development (2)	33	46	33	31	32	33	34	36	80
Fleet Services Fund	0	0	0	14	13	13	13	13	13
Business-type activities:									
Airport Fund	15	N/A	21	20	20	20	21	18	18
Water Fund	53	54	54	58	57	61	60	64	65
Sewer Fund	43	50	50	45	44	44	47	47	47
Solid Waste Fund	43	44	43	43	42	42	42	46	44

Source: Budget Office, City of Lynchburg, Virginia

(1) FY 2007 actual will be available with the FY 2009 adopted budget.

(2) During FY 2007 the Engineering Division was moved to Community Planning & Economic Development.

**OPERATING INDICATORS BY FUNCTION/PROGRAM,
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Police										
Physical Arrests	10,994	10,994	4,957	7,403	7,563	6,295	6,449	6,717	6,996	6,634
Traffic Violations	13,997	16,616	16,395	12,496	15,190	8,759	9,628	11,477	10,926	10,634
Parking Violations	11,925	12,444	9,440	8,519	9,930	8,113	7,308	6,806	6,306	7,741
EMS calls	N/A	N/A	N/A	N/A	11,864	14,552	12,197	12,782	13,032	13,764
Fire										
Number of calls answered (per month) (1)	400 (est)	465 (est)	504 (est)	528 (est)	602 (est)	619(est)	227 (est)	328 (est)	463 (est)	501
Number of inspections conducted	521	968	1,250	1,436	1,425	1,430	1,280	1,089	293	253
Sanitation and Refuse										
Refuse collected (tons/day) (2)	N/A	32.58	33.05	58.05	57.79	59.95	62.30	66.45	70.74	72.22
Recyclables collected (tons/day)	N/A	8.96	9.21	6.81	19.13	8.43	7.60	6.42	5.34	5.34
Airport										
Total number of passengers	182,448	173,858	167,060	151,003	107,455	92,779	109,940	128,811	124,093	115,560
Sewage										
Number of service connections	16,000	17,000	17,100	17,300	17,300	17,500	17,595	17,768	18,179	18,310
Average daily treatment in million gallons	13	13	11	14	11	14	14	13	12	14
Maximum daily average capacity of treatment plant in million gallons	22	22	22	22	22	22	22	22	22	22
Maximum daily capacity of treatment plant in million gallons	44	44	44	44	44	44	44	44	44	44
Water										
Number of service connections	20,000	21,200	21,275	21,386	21,386	21,586	21,341	21,522	21,930	22,044
Average daily consumption of plant in million gallons	12	12	12	12	12	11	11	11	11	10
Maximum daily capacity of plant in million gallons	26	26	26	26	26	26	26	26	26	26

Source: Various City Departments.

(1) Fire calls only, not EMS

(2) The numbers stated for FY 2001-2006 differ from those previously reported and reflect the actual data based on the information provided by the Public Works Department.

CAPITAL ASSETS STATISTICS BY FUNCTION/PROGRAM,
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Number of patrol units	55	55	43	45	45	53	53	53	54	55
Fire										
Stations	8	8	8	8	8	8	8	8	8	8
Refuse collection										
Collection Trucks	not specified	12	11	12	14	14	15	15	16	16
Highways and Streets										
Street (miles) (1)	355.00	355.00	360.00	312.00	314.00	365.95	368.23	372.23	373.28	374.42
Streetlights (2)	9,279	9,309	9,334	9,444	9,520	9,590	9,672	9,747	9,822	9,899
Traffic signals	not specified	103	108	110	110	110	110	113	117	117
Culture and Recreation										
Community centers	8	8	7	7	7	7	7	7	7	7
Senior centers	-	-	-	-	-	-	-	1	1	1
Parks	11	12	12	12	16	16	16	17	17	17
Parks acreage (3)	770.5	831.5	831.5	835	835	835	835	838	848	848
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts (4)	40	40	40	40	40	40	40	40	40	40
Gymnasiums	-	3	5	7	7	7	7	7	7	7
Sewage system										
Storm sewers (miles)	not mapped	not mapped	not mapped	not mapped	not mapped	not mapped	not mapped	not mapped	not mapped	260.7 miles
Water										
Fire hydrants	2,268	2,268	2,274	2,274	2,274	2,324	2,451	2,788	2,799	2,800
Storage capacity (thousands of gallons)	not specified	not specified	not specified	not specified	not specified	not specified	not specified	not specified	33,000	33,000
Sewer										
Average daily sewage treatment (MGD)	13.00	13.00	11.00	14.00	11.00	14.00	14.00	13.00	12.00	13.73
Maximum daily sewage treatment (MGD)	18.75	18.73	29.90	28.73	34.62	36.85	28.28	27.11	27.11	33.44
Transit - buses	29	29	29	29	29	29	29	29	29	29
Facility and service not included in the reporting entity:										
Education										
Number of elementary schools (5)	13	13	12	12	11	10	11	11	11	11
Number of secondary schools	5	5	5	5	5	5	5	5	5	5
Number of community colleges	1	1	1	1	1	1	1	1	1	1
Number of universities or colleges	4	4	4	4	4	4	4	4	4	4
Hospitals										
Number of hospitals	2	2	2	2	2	2	2	2	2	2
Number of patient beds	788	788	788	769	636	554	554	554	587	587

Source: Various City Departments.

(1) The numbers stated for FY 2003-2006 differ from previously reported and reflect the actual data based on the information provided by Public Works Department

(2) The numbers stated for FY 2002-2006 differ from previously reported and reflect the actual data reported by American Electric Power

(3) Including Blackwater Creek Natural Area

(4) 10 locations with a total of 40 courts - including schools

(5) Kizer Elementary School used for Special Education, therefore, excluded from total number of elementary schools for reporting purposes

TABLE 27

**CITY OF LYNCHBURG, VIRGINIA
LYNCHBURG CITY SCHOOLS
STUDENT ENROLLMENT, EMPLOYEES AND SCHOOLS BY FISCAL YEAR
LAST EIGHT YEARS**

<u>Description</u>	<u>Student Enrollment, Employees and Schools by Fiscal Year</u>							
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Elementary School Membership	4,366	4,230	4,049	3,968	3,910	3,840	3,793	3,877
Secondary School Membership	4,930	4,982	5,015	4,987	4,872	4,785	4,809	4,745
Total Membership	<u>9,296</u>	<u>9,212</u>	<u>9,064</u>	<u>8,955</u>	<u>8,782</u>	<u>8,625</u>	<u>8,602</u>	<u>8,622</u>
Teachers and Administrators (1)	798	811	807	782	762	753	776	772
Other Employees	490	475	494	474	467	471	470	482
Total Employees	<u>1,288</u>	<u>1,286</u>	<u>1,301</u>	<u>1,256</u>	<u>1,229</u>	<u>1,224</u>	<u>1,246</u>	<u>1,254</u>
Elementary Schools (2)	12	12	12	11	11	11	11	11
Secondary Schools	5	5	5	5	5	5	5	5
Total Buildings	<u>17</u>	<u>17</u>	<u>17</u>	<u>16</u>	<u>16</u>	<u>16</u>	<u>16</u>	<u>16</u>

(1) Includes only full-time equivalent positions funded through the operating budget.

(2) Does not include Armstrong, now being used for special education students.

<u>Actual Average Daily Student Enrollment by Grade & Fiscal Year</u> <u>(Based on September 30th Actual Enrollment)</u>								
<u>Grade</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
K	769	669	655	674	700	666	670	722
1	696	755	661	628	651	628	655	675
2	764	685	716	664	608	647	634	629
3	702	719	649	689	641	583	628	629
4	729	693	695	633	690	630	593	625
5	706	709	673	680	620	686	613	597
6	746	713	729	686	689	658	707	618
7	704	719	707	697	661	680	664	694
8	740	705	730	737	697	660	687	662
9	895	825	869	904	856	857	823	867
10	665	790	757	730	740	772	726	661
11	579	627	666	676	656	627	669	621
12	601	603	557	557	573	531	533	622
Total	<u>9,296</u>	<u>9,212</u>	<u>9,064</u>	<u>8,955</u>	<u>8,782</u>	<u>8,625</u>	<u>8,602</u>	<u>8,622</u>

Source: Superintendent of Schools, City of Lynchburg, Virginia.

FY 2000 is the first year of reporting this information with a goal of future reporting to include ten (10) years.

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COMPLIANCE SECTION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lynchburg, Virginia, as of and for the year ended June 30, 2007 which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

The City's financial statements include the discretely presented component unit referred to as the Business Development Centre, Inc. Our audit did not include the operations of this component unit because it engaged another auditor to perform its audit.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. **We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Items 07-1, 07-2, and 07-3 to be significant deficiencies in internal control over financial reporting.**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. **However, we believe all of the significant deficiencies described above are material weaknesses.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as Items 07-5 and 07-6. Certain immaterial instances of noncompliance were also noted and communicated to management of the City separately.**

We also noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated November 16, 2007.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information of the audit committee, management, state and federal awarding agencies, and pass-through entities and City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 16, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

Compliance

We have audited the compliance of the City of Lynchburg with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

Due to an ongoing investigation of the Lead Hazard Control Program by a Federal agency, we did not audit compliance with the requirements of laws, regulations, contracts or the grant agreement related to this major program.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we audited the City's compliance with the requirements of the Lead Hazard Control Program, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements required to be reported in accordance with *OMB Circular A-133*, which is described in the accompanying schedule of findings and questioned costs as Item 07-4.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses, and accordingly, we express no opinion on them.

This report is intended for the information of the audit committee, management, federal awarding agencies and pass-through entities, and City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 16, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER
FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE PASSENGER FACILITY CHARGE PROGRAM AUDIT GUIDE**

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

Compliance

We have audited the compliance of the City of Lynchburg, Virginia with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the "Guide"), issued by the Federal Aviation Administration, for its passenger facility program (the "Program") for the year ended June 30, 2007. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2007.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the Program. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on the Program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of the Program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer the Program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of the Program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of the Program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

This report is intended solely for the information of the audit committee, management, the Federal Aviation Administration, and City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 16, 2007

CITY OF LYNCHBURG, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2007

As more fully described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

State Agency Requirements

Education

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Comprehensive Services Act

Economic Development Opportunity Funds

Uniform Disposition of Unclaimed Property Act

Sheriff Internal Controls

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

FEDERAL AVIATION ADMINISTRATION COMPLIANCE MATTERS

Passenger Facility Charge Audit Guide for Public Agencies

Requirements of laws and regulations required by the Federal Aviation Administration in relation to passenger facility charges.

CITY OF LYNCHBURG, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **Three significant deficiencies** relating to the audit of the financial statements were reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. **All were determined to be material weaknesses.**
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses a **qualified opinion**.
6. The audit disclosed **one audit finding relating to major programs**.
7. The major programs of the City are:

Name of Program	CFDA #
Revolving Loan	66.458
National School Breakfast Program	10.553
National School Lunch Program	10.555
Title VI-B Special Education	84.027
Special Education Preschool Grants	84.173
Foster Care	93.658
Airport Improvement Program	20.106
Lead Based Paint	14.900
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Workers	17.260

8. The **threshold for** distinguishing Type A and B programs was **1,010,000**.
9. The City of Lynchburg was **not** determined to be a **low-risk auditee**.
10. Passenger Facility Charge Program:
 - a. Material weakness identified? No
 - b. Reportable condition not considered to be a material weakness? None reported
 - c. Noncompliance material to the passenger facility charge program? No
 - d. Type of auditor's report on compliance for major programs. Unqualified
 - e. Any audit findings disclosed. No

CITY OF LYNCHBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

07-1: Auditor Adjustments – Schools (Material Weakness)

Condition:

We proposed a number of journal entries at the Schools which we deemed material to the financial statements.

Recommendation:

Management should take steps to ensure that all significant accounts are reconciled and properly adjusted. Monitoring of significant account balances should be a normal practice throughout the year.

Management's Response:

Management hired a new Chief Financial Officer which joined the finance department shortly after year end. Procedures will be implemented for month end closings and monthly analysis to ensure that all significant accounts are reconciled and properly adjusted in a timely manner.

07-2: Grant Reimbursements: (Material Weakness)

Condition:

We proposed material journal entries to grant revenue and opening net assets/fund balance for unrecorded reimbursements receivable. These were due primarily to one department failing to report that reimbursement based grants were available to fund certain expenditures.

Recommendation:

Management should take steps to ensure all such grants are captured centrally and monitored for financial reporting purposes.

Management's Response:

Management agrees with the finding and recognizes the importance of reporting grant reimbursement requests in a timely manner. Management is implementing a new procedure which requires all City departments to notify Finance when a project is funded with grant funds. Finance must be notified at three critical states: Filing of the grant application, receipt of the grant award letter, and request for grant reimbursement. Management expects implementation of the new procedure to eliminate future unrecorded grant reimbursement requests.

CITY OF LYNCHBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

SIGNIFICANT DEFICIENCIES (Continued)

07-3: Landfill Liabilities (Material Weakness)

Condition:

The landfill liability calculation was incorrect due to a portion of closure costs being omitted from the external engineer's calculations.

Recommendation:

We recommend that City management, including the finance and public works departments, perform a thorough review of all estimates provided by the external engineers for identification of errors or omissions.

Management's Response:

Management agrees with the finding and recognizes the importance of reviewing estimates provided by external engineers. The finance department and public works department will perform a thorough review of all estimates provided by external engineering consultants regarding closure and post-closure liabilities of the City's landfill. Finance and public works staff will ensure the accuracy of the final estimates.

C. FINDINGS AND QUESTIONED COSTS – PASSENGER FACILITY CHARGE PROGRAM

None.

D. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

07-4: Foster Care – CFDA 93.658

Condition:

We noted one instance out of fifteen where a permanency plan was not established within the required time period.

Recommendation:

Procedures should be implemented to ensure all cases have a permanency plan established within the required time period.

Management's Response:

Management agrees with the finding and recognizes the importance of establishing a permanency plan in a timely manner. A plan has been implemented to ensure that permanency plans are completed, supported by Court documentation and forwarded to the IV-E unit in a timely fashion.

CITY OF LYNCHBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007**

E. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

07-5: EBT Card Authorization Signatures

Condition:

We noted one instance out of ten files reviewed in which the Vault Card EBT issuance form was not signed when completed by the case worker.

Recommendation:

Procedures should be implemented to ensure that all Vault Card EBT issuance forms are properly signed.

Management's Response:

Management agrees that the forms should be signed when completed by the case worker. Management in Human Services will ensure that all case workers are properly trained on the requirement to sign the issuance form.

07-6: Timely Disclosure Statement Submission – Schools

Condition:

We noted one out of eight School official disclosure statements that were not filed by the January 15th required submission deadline as set forth by the *Code*.

Recommendation:

Procedures should be implemented to ensure that School officials submit disclosure statements timely.

Management's Response:

Management agrees with the finding and recognizes the importance of filing official disclosure statements by the required submission deadline. A procedure has been implemented to notify school board members of the date the Statement of Economic Interests is to be filed in the clerk's office.

CITY OF LYNCHBURG, VIRGINIA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2007**

Auditor

Reference No.

06-5: Child Nutrition Cluster – CFDA 10.553 & 10.555

Condition:

One instance out of six where the number of meals reported for reimbursement did not agree to the meal count sheets as recorded at the individual schools.

Current Status:

Finding was not detected for the year ended June 30, 2007.

06-6: Workforce Investment Act Cluster – CFDA 17.258, 17.259, & 17.260

Condition:

City was not performing monitoring of activities financed by federal program funds performed at subrecipients.

Current Status:

During the current year the City implemented monitoring procedures over the fiscal relationship between the subrecipient and the City. However, we continue to recommend the City implement monitoring procedures over the compliance and controls over such compliance at the subrecipient.

Management's Response:

Management recognizes the importance of monitoring subrecipients at the fiscal level as well as at the compliance level. The City is developing new monitoring procedures to ensure not only fiscal accountability but compliance with program laws and regulations as well. City staff is also attending training to ensure that the monitoring procedures utilized by the City are achieving the desired results as required by federal and state law.